

Pointer Telocation Ltd  
Form 20-F  
March 27, 2018

**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  
<sup>x</sup>1934**

**For the fiscal year ended December 31, 2017**

**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**  
**(Translation of Registrant's (Jurisdiction of incorporation**  
**name into English)                      or organization)**

**14 Hamelacha Street,**  
**Rosh Haayin 4809133, Israel**  
**(Address of principal executive offices)**

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**14 Hamelacha Street, Rosh Haayin 4809133, Israel**

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Ordinary Shares, NIS 3.00 nominal value per share</b>	<b>NASDAQ Capital Market</b>

**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.

**8,059,094 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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

..

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

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

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No  N/A

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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. Following the Shagrir Spin-off in 2016 (as detailed in Item 4), we discontinued the operations of our Roadside Assistance (“RSA”) services, formerly presented in our financial information as the third segment, and we now conduct our operations through two main segments. Through our Cellocator segment, we design, develop and produce leading mobile resource management (“MRM”) products, including asset management, fleet management, and security products, for sale to third party operators providing mobile resource management services and to our MRM segment. Through our MRM segment, we act as an operator by bundling our products together with a range of services, including mainly fleet management, asset management, connected car and stolen vehicle retrieval (“SVR”). 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 revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*“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, 2017, 2016, and 2015 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, 2014 and 2013 have been derived from audited financial statements not included in this annual report.

**Selected Financial Data Under U.S. GAAP:****Year Ended December 31, 2017**

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

	2017	2016	2015	2014	2013
Statement of Income Data:					
Revenues:					
Products	26,182	22,784	22,266	27,747	30,085
Services	51,973	41,569	38,301	38,458	29,216
Total Revenues	78,155	64,353	60,567	66,205	59,301
Cost of revenues:					
Products	16,073	13,904	13,435	16,267	18,248
Services	21,914	18,672	17,879	18,850	13,944
Total Cost of Revenues	37,987	32,576	31,314	35,117	32,192
Gross profit	40,168	31,777	29,253	31,088	27,109
Operating Expenses:					
Research and development, Net	4,051	3,669	3,409	3,390	3,244
Selling, general and administrative and other expenses	25,313	20,778	19,048	18,969	16,997
Amortization of intangible assets	463	473	538	994	967
One-time acquisition related costs	32	609	-	-	-
Impairment of intangible and tangible assets	-	-	917	158	-
Total operating income	10,309	6,248	5,341	7,577	5,901
Financial expenses, Net	1,004	1,046	729	2,163	889
Other (income) expenses	5	9	10	203	(3,299 )
Income before tax on income	9,300	5,193	4,602	5,211	8,311
Taxes expenses (income)	(7,221 )	1,845	1,131	(8,849 )	1,337
Income after taxes on income	16,521	3,348	3,471	14,060	6,974
Equity in gains of affiliate	-	-	-	-	340
Income from continuing operations	16,521	3,348	3,471	14,060	7,314
Income (loss) from discontinuing operations, Net	-	154	327	(1,320 )	(43 )
Net income	16,521	3,502	3,798	12,740	7,271
Net income (loss) attributable to non-controlling interest	3	58	(147 )	(713 )	951

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Net income attributable to Pointer Telocation Ltd. Shareholders	16,518	3,444	3,945	13,453	6,320
Basic net earnings from continuing operations per share attributable to Pointer Telocation Ltd. shareholders	2.07	0.43	0.46	1.92	1.19
Diluted net earnings from continuing operations per share attributable to Pointer Telocation Ltd. shareholders	2.03	0.43	0.44	1.85	1.17
Basic weighted average number of shares outstanding (in thousands)	7,998	7,820	7,725	7,447	5,558
Diluted weighted average number of shares outstanding (in thousands)	8,131	7,938	7,938	7,727	5,697
Balance Sheet Data:					
Total assets	94,464	76,881	103,438	111,004	113,227
Net assets of continuing operations	63,416	42,689	37,166	38,363	23,041
Working capital (deficit)	9,252	5,448	4,203	3,242	(12,644 )
Shareholders' equity	63,416	42,689	55,035	53,796	42,639
Pointer Telocation Ltd. shareholders	63,134	42,527	56,104	56,647	37,110
Non-controlling interest	282	162	(1,069 )	(2,851 )	5,529
Share capital	5,995	5,837	5,770	5,705	3,878
Additional paid-in capital	129,076	128,438	128,410	129,618	120,996

**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, 2017**

	2017	2016	2015
Revenues			
Products	34	35	37
Services	66	65	63
Total Revenues	100	100	100
Cost of Revenues:			
Products	20.6	21.6	22.2
Services	28.0	29.0	29.5
Total Cost of Revenues	48.6	50.6	51.7
Gross profit	51.4	49.4	48.3
Operating Expenses:			
Research and development costs, Net	5.2	5.7	5.6
Selling, general and administrative and other expenses	32.4	33.2	31.4
Total operating Expenses	37.6	38.9	37.0
Amortization of intangible assets and Impairment of long lived assets	0.6	0.1	2.4
Operating income	13.2	9.7	3.9
Financial expenses	1.3	1.6	1.2
Other expenses	-	-	-
Income before tax on income	11.9	8.1	7.6
Taxes expenses (income)	(9.2)	2.9	1.9
Net income from continuing operations	21.1	5.2	5.7
Net income from discontinued operation	-	0.1	0.6
Net income	21.1	5.3	6.3
Net loss attributable to non-controlling interest	-	-	(0.2)
Net income attributable to Pointer Telocation Ltd. Shareholders	21.1	5.3	6.5

## 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 management, fleet management and security products for sale to third party operators providing mobile resource management services world-wide, and to our MRM segment. Through our MRM segment, we act as an operator primarily in Israel, Argentina, Mexico, Brazil and South Africa by bundling our products together with a range of services (which varies in each country), including fleet management, assets management and SVR services.*

*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 Company**

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

The global economy continues to be adversely affected by stock market volatility, tightening of credit markets, concerns of inflation and deflation, adverse business conditions and liquidity concerns and business insolvencies. These events and the related uncertainty about future economic conditions, including adverse conditions in Europe and Brazil, significant markets for Cellocator, following the debt crisis there in 2011 and the volatility of the Euro against the USD, as well as continuing political instability in Brazil 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 share 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, the European and Brazilian economies in particular, and the automotive industries sector does not change or continue to improve, our business, financial condition and results of operations could be harmed.

South African regulation of the private security industry may adversely affect our business. The Private Security Industry Regulation Amendment Bill (the “**Bill**”) was approved by the National Assembly and the National Council of Provinces, and is awaiting, since March 2014, the final signature of the President in order to go into effect. The proposed Bill includes an amendment to existing law by requiring that in order to be registered as a security service provider, a security business must have at least fifty-one percent (51%) of the ownership and control of the company exercised by South African citizens. The Bill has yet to be signed by the President and is currently contested by both South African and international stakeholders. If the Bill becomes effective in its current form, in order to meet the new registration requirements when applying for renewal of the registration of our South African operations, we would be forced to sell 39% of our holdings in our South African subsidiary, which would adversely affect our South African operations.

*Changes in practices of insurance companies in the markets in which we provide, and sell, our SVR services and products could adversely affect our revenues and growth potential.*

We depend on the practices of insurance companies in the markets in which we provide our SVR services and sell our products. In Israel, which is our main SVR market, most of the insurance companies either mandate the use of SVR services and products for certain cars, or their equivalent, as a prerequisite for providing insurance coverage to owners of certain medium and high-end vehicles, or provide insurance premium discounts to encourage vehicle owners to subscribe to services and purchase products such as ours. Therefore, we rely on insurance companies’ continued practice of accepting vehicle location and recovery technology as a preferred security product.

If any of these policies or practices change, for regulatory or commercial reasons, or if market prices for these services fall, revenues from sales of our SVR services and products, primarily in Israel, could decline, which could adversely affect our revenues and growth potential.

***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 MRM products are primarily installed before or immediately after the initial sale of private or commercial vehicles. Consequently, a reduction in sales of new vehicles could reduce our market for mobile resource management services and 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 MRM and Cellocator segments operate could result in reduced demand for our services and products.

***A reduction in vehicle theft rates may adversely impact demand for our SVR services and products.***

Demand for our SVR services and products, depends primarily on prevailing or expected vehicle theft rates. Vehicle theft rates may decline as a result of various factors such as the availability of improved security systems, implementation of improved or more effective law enforcement measures, or improved economic or political conditions in markets that have high theft rates. If vehicle theft rates in some of, or entire of, our existing markets decline, or if insurance companies or our other customers believe that vehicle theft rates have declined or are expected to decline, demand for our SVR services and products may decline.

***The integration of a newly acquired company may not provide the benefits anticipated at the time of acquisition.***

In line with our strategy to expand our operations and services in markets in which we currently operate as well as into new and emerging markets, leveraging our existing know-how and infrastructure, we acquired the activities of Neo-Trac South Africa Proprietary Limited and T-Trac SA Proprietary Limited, South African companies, in October 2017, which were integrated into Pointer South Africa, and we may make future acquisitions. The considerations paid for the acquisition of these companies' activities are based upon the expected incremental cash flows that will be generated from increased revenues. Failure to realize these expected benefits and synergies, or expected benefits and synergies of future acquisitions if we decide to acquire additional companies, businesses and/or assets, could result in an impairment of the carrying value of such acquired companies, businesses and/or assets.

***The introduction of services and 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/UMTS 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 LTE, personal communications services, specialized or customized 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.

***The increasing availability of handheld GPRS devices may reduce the demand for our products for small fleet management.***

The increasing availability of low cost handheld GPRS devices and smartphones may result in a decrease in the demand for our products by managers of small auto fleets or providers of low level services. The availability of such devices has expanded considerably in recent years. Any such decline in demand for our products could cause a decline in our revenues and profitability.

***Our operations rely on the use of information technology and any material security failure of that technology could harm our business.***

Our operations, including the provision of our MRM services segment and our Cellocator segment, rely on the use of information technology and any material security failure of that technology or cyber-attack could harm our business. We utilize for our operations, cloud computing services, our own physical servers and certain applications. In 2016, we transitioned to centralized cloud computing services over which we do not exert direct control. Using remote computing resources carries a risk that unauthorized individuals could degrade or abscond with sensitive data or otherwise gain access to sensitive data. There are risks associated with the remote storage of data in installations that could be damaged, destroyed, seized, bankrupt, or otherwise no longer accessible. There are also concerns that Internet outages could result in data not being available when needed.

We have implemented cyber security measures and controls, which involve the prevention, detection and recovery of data in the event of cyber security breaches. We perform regular effectiveness of control reviews of some of our systems as well as an annual external review of the degrees of effectiveness of the network security in our various departments. However, the internal controls we use over cyber security may not be sufficient to prevent significant deficiencies or material weaknesses in the future, and we may also identify other conditions that could result in significant deficiencies or material weaknesses. In the event of a cyber-attack, we could experience the corruption or loss of data, misappropriation of assets or sensitive information, including customer information, or operational disruption. This could result in substantial loss of revenues, response costs and other financial loss, and may subject us to litigation and cause damage to our reputation, for which we may not be covered under our current insurance policies.

*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 Cellocator and MRM segments 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 MRM and Cellocator segments have obtained, will remain sufficient in the view of regulatory authorities. In addition, we cannot assure you that third party operators of our systems and products will obtain licenses and approvals in a timely manner 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 allow us to sufficiently 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 a financing through the issuance of shares may result in the dilution of the interests of our current shareholders.

As a result of the registration statements that we currently have outstanding, many of our investors who hold our securities, which might include DBSI Investments Ltd., or DBSI, our controlling shareholder, 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 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.

***We might incur net losses on our future investments.***

We may experience net losses in the future given the markets in which we operate. As a part of our strategy, we focus 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 of short term losses. If we sustain prolonged net losses or losses from continuing operations, we may have to cease our operations.



*Pointer and Pointer Brazil, together have significant loans from banks which they are required to repay in accordance with strict schedules that it may not be able to meet or that limit our operating and financial flexibility.*

As of December 31, 2017, Pointer had, in the aggregate, approximately \$9.9 million in outstanding loans from Bank Hapoalim B.M. (“**Bank Hapoalim**”) and Bank Leumi le-Israel B.M. (“**Bank Leumi**”) and approximately \$0.2 million in outstanding loans from Banco Itau S.A. in Brazil (“**Itau Bank**”). Approximately \$4.3 million of the above mentioned loans were provided in connection with the transaction in which the Company acquired the remaining interests in Shagrir Systems Ltd. (“**Shagrir Systems**”) in January 2014, and approximately \$5.6M were provided in connection with the transaction in which the Company acquired Cielo. Should Pointer fail to repay the loans in accordance with the repayment schedule pertaining to each loan or if Bank Hapoalim and/or Bank Leumi refuse to amend the relevant repayment schedule, Bank Hapoalim and/or Bank Leumi may realize certain liens that were created in its favor, which in turn may have a material adverse effect on Pointer’s financial condition. For additional information regarding Pointer’s bank loans and credit facilities see “Item 5.B. – Operating and Financial Review and Prospects – Liquidity and Capital Resources.”

The credit facilities and loans described above contain a number of restrictive covenants that limit the operating and financial flexibility of Pointer. Please see Note 10c to our consolidated financial statements for further information. In connection with the merger with Shagrir Systems, Bank Hapoalim and Bank Leumi signed a pari passu agreement with regards to Pointer’s liabilities to the banks according to which Bank Leumi received liens and covenants similar to those of Bank Hapoalim. The covenants for our loans were amended in connection with the acquisition of Cielo. 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 under applicable cross-default provisions, permitting the lenders to accelerate the repayment of the borrower in default. As of December 31, 2017, Pointer was 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 5B – Liquidity and Capital Resources and Item 10C – 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 \$42.9 million at December 31, 2017.

No impairment losses from continuing operations were identified in 2013, 2016 and in 2017. In 2014, as a result of an annual impairment test, the Company fully impaired the Car2go Ltd., or Car2go, goodwill by \$0.5 million. During 2015, the Company recorded an impairment of goodwill and intangible assets related to the acquisition of our Brazilian subsidiary in the amount of \$0.9 million.

We test goodwill for impairment at least annually and 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 share 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 share 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.

***Our financial statements may not reflect certain payments we may be required to make to employees.***

In certain countries, we are not required to reflect future severance fees in our liabilities. In countries such as Argentina, Brazil and Mexico, companies do not generally dedicate amounts to potential future severance payments. Nonetheless, in such cases, companies must pay a severance payment in cash upon termination of employment. We also do not have a provision in our financial statements for potential future severance payments in the above countries and instead such expenses are recorded when such payments are actually made upon termination of employment. As a result, our financial statements may not adequately reflect possible future severance payments.

***Some of our employees in our subsidiaries are members of labor unions and a dispute between us and any such labor union could result in a labor strike that could delay or preclude altogether our ability to generate revenues in the markets where such employees are located.***

Some of our employees in our subsidiaries are members of labor unions. If a labor dispute were to develop between our unionized employees, and us, such employees could go on strike and we could suffer work stoppage for a significant period of time. A labor dispute can be difficult to resolve and may require us to seek arbitration for resolution, which can be time-consuming, distracting to management, expensive and difficult to predict. The occurrence of a labor dispute with our unionized employees could delay or preclude altogether our ability to generate revenues in the markets where such employees are located. In addition, labor disputes with unionized employees may involve substantial demands on behalf of the unionized employees, including substantial wage increases, which may not be correlated with our performance, thus impairing our financial results. Furthermore, labor laws applicable to our subsidiaries may vary and there is no assurance that any labor disputes will be resolved in our favor.

***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. Finally, we must maintain the effectiveness of our internal controls following the integration of our acquisitions (see Item 4.A. - History and Development of the Company- Recent Developments), and to ensure our compliance with Sarbanes–Oxley and the related rules. 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.

***Under the current laws in jurisdictions in which we operate we may not be able to enforce non-compete covenants and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.***

We currently have non-competition agreements with many of our employees. However, due to the difficulty of enforcing non-competition agreements globally, not all of our employees in Israel or in other jurisdictions have such agreements. These agreements generally prohibit our employees, if they cease working for us, from directly competing with us or working for our competitors for a certain period of time following termination of their employment agreements. Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer which have been recognized by the courts, such as the secrecy of a company's confidential commercial information or its intellectual property. If we cannot demonstrate that harm would be caused to us, we may be unable to prevent our competitors from benefiting from the expertise of our former employees.

*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. In addition, our major shareholder, and another unrelated shareholder, are each affiliated with certain members of our board of directors.*

As of February 28, 2018, DBSI beneficially owns approximately 26.95% of our issued and outstanding shares, or 26.07%, 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 six members, three of whom are affiliated with DBSI. As a result, DBSI has the ability to strongly influence the decisions made by our full board of directors.

As of February 28, 2018, The Phoenix Investment and Finances Ltd, or the Phoenix, beneficially owns approximately 9.13% of our issued and outstanding shares, or 8.83% on a fully diluted basis.

### **Risk Factors relating to our MRM segment**

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

We face intense competition in every market in which we offer our services. Should any of our competitors successfully provide a broader, more efficient or otherwise 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.

Due to the significant penetration of MRM services, such as fleet management services, asset management services and stolen vehicle retrieval services, as well as the moderate overall growth of these markets in the countries in which they are provided, we anticipate that revenues from MRM sales will continue to increase in those countries. However,

as a result of intense competition in those markets, we expect that our margins may decrease and the churn rate may increase.

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

As part of the provision of our MRM services in the jurisdictions in which we operate, we rely on subcontractors and police forces to provide our SVR 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 effective 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 should these operators fail to successfully market and service our products, including a failure to recover the stolen vehicles effectively and in a timely manner, it could negatively impact customers' perception of the usefulness of our services and our business would be adversely affected.

*In offering our services, we use fixed price contracts with our customers while our expenses are largely variable.*

Most of the MRM services, including SVR services, fleet management services, and services provided by our MRM segment are offered at monthly fixed price contracts, according to which we are paid a fixed price each month by our customers who subscribe to receive these services. Should operational expenses increase due to factors such as increased labor costs, communication cost over GPRS networks (SIM) or any other materials necessary for our operations, our profit margins could suffer as a result. Since it is often difficult to predict future increases in the cost of components or labor costs, our fixed price contracts may not adequately cover our future outlays.

In addition, in some of the markets in which we currently operate, including Argentina, Brazil and South Africa, we may not be able adjust the monthly fees (i.e. our revenues) we charge each month to match the inflation rate by linking the price to the local Consumer Price Index. As a result, should the applicable inflation rate (and therefore certain costs such as salaries) increase, our profits may be negatively impacted.

#### **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.*

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. Furthermore, 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 current and new products.***

Our growth depends on the continued success of our existing products, as well as the successful design and introduction of new products. For example, as is the case with any product intended to prevent vehicle theft, over time, there may be an increased ability of unauthorized persons to detect, deactivate, disable or otherwise inhibit the effectiveness of our SVR, or anti-theft products (although it is difficult to verify this fact). An increase in the ability of unauthorized persons to detect, deactivate, disable or otherwise inhibit the effectiveness of those products could adversely affect demand for our SVR and anti-theft products, which would consequently affect our revenues.

In addition, 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's acceptance of our products.***

The development, enhancement, implementation and manufacturing 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.

***Sales of the products of our Cellocator segment depend on the growth of operators' and distributors' business and their increased demand for such products, and on the ability of our distributors to market these products.***

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 MRM segment acting as an operator, conduct SVR 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. Such revenues are also dependent on distributors who market our products in such countries. While no single operator or distributor is material, should we fail to maintain relationships with these third party operators and distributors, or these operators and distributors 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 fleet management systems and stolen vehicle retrieval (also referred to as Mobile Resource Management Solutions).*

While we have a diversified product base, offering customers cellular units together with GPS devices and other technology, 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 subcontractors. Assembly is performed by us and by subcontractors located in Israel and abroad. 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 terminates 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 are dependent on some components with a limited source of supply, we believe that most of the components of our systems may be readily acquired from numerous suppliers. However, we cannot give assurance that we would be successful in entering into arrangements with other suitable independent manufacturers without significantly impairing our sales in the interim period, or that supply sources will not be interrupted from time to time. Furthermore, our subcontractors or vendors may fail to obtain supply components and fail to deliver our products. 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. 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 and the majority of our products are sold outside of Israel. We are subject to the risks inherent to 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 have experienced, and may again experience, the following difficulties:

- longer sales cycles, especially upon entry into a new geographic or vertical market (especially non-traditional markets like motor vehicles) or engaging with new customers;
- difficulties in establishing operations in new jurisdictions;
- foreign exchange controls and licenses;
- trade restrictions;
- changes in tariffs;
- currency fluctuations;
- economic or political instability;
- international tax aspects;
- regulation requirements; and
- greater difficulty in safeguarding intellectual property.

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

Our Cellocator segment sells mostly GPS/GPRS based vehicle devices and radio frequency based vehicle devices. In the GPS/GPRS field there is strong competition with many manufacturers introducing vehicle devices with

competitive prices and various performance features. These devices are offered to operators that provide fleet management and SVR services and there is strong competition 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 adequately protect our proprietary rights to the extent that they are protected in other countries;
- unauthorized third parties may attempt to copy or obtain and use the technology that we regard as proprietary;
- patents issued to us and other proprietary rights may be infringed, designed around or invalidated by competitors and 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.

there is 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. patent applications in the United States are maintained in confidence until patents are issued, and because publication of discoveries in the scientific or patent literature tend 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, therefore, patent applications submitted by us may not actually afford protection against competitors with similar technology.

In addition, others may assert infringement claims against us or challenge the validity or enforceability of any patent owned by us. The cost of responding to infringement claims could be significant, regardless of whether such claims are valid.

***We may see a decrease in demand for our products should vehicle manufacturers, importers, dealers or agents begin embedding tracking and communication devices in their vehicles as part of their basic vehicle offerings.***

Our SVR and MRM products are primarily installed before or immediately after the initial sale of private or commercial vehicles. Consequently, should vehicle manufacturers, importers, dealers or agents elect, or be required by governmental regulations or otherwise, to develop and embed alternative tracking and communication devices (such as E-call service devices which are also designed to automatically call for receipt of various services, such as assistance in the event of emergencies) in their vehicles, there may be a decrease in demand for our products.



## 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 – 1999 (“**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. In addition, the Shagrir Spin-off may have an impact on our future profits and our equity, following which we may not have sufficient earnings for distribution of cash dividends. For further discussion of the risks related to the Shagrir Spin-off, please see Item 3 – Risk Factors – Risks Related to the Shagrir Spin-Off.

*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 are traded on more than one market and this may result in price variations.***

Our ordinary shares are traded on the NASDAQ Capital Market and, as of April 6, 2016, on the Tel Aviv Stock Exchange (“TASE”). Trading in our ordinary shares on these markets takes place in different currencies (U.S. dollars on the Nasdaq Capital Market and NIS 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). The trading prices of our ordinary shares on these two markets may differ due to these and other factors. 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.

***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 as of April 6, 2016, on the TASE. Trading in our ordinary shares has been limited and there can be no assurance that an active trading market for our ordinary shares will develop. As a result, our shareholders’ ability to sell our ordinary shares in short time periods or in large volumes may be impacted. Thinly traded shares can be more volatile than shares traded in an active public market. The average daily trading volume of our ordinary shares from January 1, 2018 to February 28, 2018 was 18,610 shares on the NASDAQ Capital Market and the high and low bid prices of our ordinary shares from January 1, 2018 to February 28, 2018 were \$19.55 and \$15.1 respectively on the NASDAQ Capital Market. The average daily trading volume of our ordinary shares from January 1, 2018 to February 28, 2018 was 11,992 shares on the TASE and the high and low bid prices of our ordinary shares from January 1, 2018 to February 28, 2018 were NIS 67.94 and NIS 55.77, respectively 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.

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

As a result of corporate governance controversies in the United States and Israel, 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.

*Compliance with the US Conflict Minerals Law may affect our ability or the ability of our suppliers to purchase raw materials at an effective cost.*

Many industries rely on materials which are subject to regulation concerning certain minerals sourced from the Democratic Republic of Congo (“**DRC**”) or adjoining countries, which include Sudan, Uganda, Rwanda, Burundi, United Republic of Tanzania, Zambia, Angola, Congo, and Central African Republic. These minerals are commonly referred to as conflict minerals. Conflict minerals which may be used in our industry or by our suppliers include Columbite-tantalite (derivative of tantalum [Ta]), Cassiterite (derivative of tin [Sn]), gold [Au] and Wolframite (derivative of tungsten [W]). In August 2012 the SEC adopted annual disclosure and reporting requirements for companies that use conflict minerals mined from the DRC and adjoining countries in their products. These requirements required due diligence efforts in fiscal year 2013, with initial disclosure requirements beginning in May 2014. There are costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. Although we expect that we and our suppliers will be able to comply with the requirements due to the size and complexity of our supply chain, it will take time for all of our suppliers to verify the origin of any conflict minerals. By using our supply chain due diligence processes and continuing our outreach efforts, we intend to continue developing transparency into our supply chain. The regulations may also reduce the number of suppliers who provide conflict-free metals, and may affect our ability to obtain products in sufficient quantities or at competitive prices. We may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.

### **Risks Related to the Shagrir Spin-Off**

*Potential indemnification liabilities of Pointer to Shagrir Group could materially adversely affect us.*

Future agreements between Pointer and Shagrir Group Vehicle Services Ltd. (“**Shagrir Group**”) may provide for indemnification obligations designed to make Pointer financially responsible for liabilities that may exist relating to, or arising out, of its business activities, whether incurred prior to, or after the consummation of, the Shagrir Spin-off. If Pointer is required to indemnify Shagrir Group for any reason, Pointer may be subject to substantial liabilities.

*In connection with the Shagrir Spin-off, Shagrir Group will indemnify us for certain liabilities. However, there can be no assurance that these indemnities will be sufficient to insure us against the full amount of such liabilities or that Shagrir Group’s ability to satisfy its indemnification obligation will not be impaired in the future.*

We expect Shagrir Group will agree to indemnify us for certain liabilities, including certain tax liabilities. However, third parties could seek to hold us responsible for any of the liabilities that Shagrir group will agree to retain, and there can be no assurance that Shagrir group will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Shagrir Group any amounts for which we are held liable, we may be temporarily required to bear these losses while seeking recovery from Shagrir Group.

## **Risk Factors Relating to Our International Subsidiaries' Operations**

*If we do not achieve applicable black economic empowerment objectives in our South African businesses, we risk not being able to renew certain of our existing contracts which service South African government and quasi-governmental customers, as well as not being awarded future corporate and governmental contracts which would result in the loss of revenue.*

The South African government, through the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, the Codes of Good Practice and Sector Codes published pursuant thereto, collectively “**BBBEE**”, has established a legislative framework for the promotion of broad-based black economic empowerment, as well as Transformation Charters. Achievement of BBBEE objectives is measured by a scorecard which establishes weightings for the various components of BBBEE by allocating points to the various components. The BBBEE Codes were reviewed by the South African Department of Trade and Industry and a new set of codes was promulgated in October 2013 and became operational as from May 1, 2015. A further BBBEE Code came into effect on November 7, 2016, which is specific to our sector of business (the ICT sector) and to us.

BBBEE objectives are pursued in significant part by requiring parties who contract with corporate, governmental or quasi-governmental entities in South Africa to achieve BBBEE compliance through a rating system by satisfaction of various elements on an applicable scorecard. Among other things, parties improve their BBBEE score when procuring goods and services from businesses that have earned good BBBEE ratings (this includes black owned businesses).

In October 2017, the Company sold 12% of Pointer South Africa’s issued and outstanding share capital as of the date thereof, to Ms. Preshnee Moodley, who also serves on Pointer South Africa’s Board of Directors. Following the sale, Pointer South Africa holds ownership recognition under the applicable BBBEE legislation, at level 5. The Company and Ms. Moodley also entered into a written shareholders’ agreement with and in respect of Pointer South Africa, which governs their relationship as shareholders of Pointer South Africa.

Failing to achieve applicable BBBEE objectives could jeopardize our ability to maintain existing business or to secure future business from corporate, governmental or quasi-governmental customers in South Africa that could materially and adversely affect our business, financial condition and results of operations.

***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 Argentina S.A., operates in Argentina, where government has historically exercised significant influence over the country's economy. In recent years, Argentina faced nationwide strikes that disrupted economic activity and have heightened political tension. In 2015, the opposition party was elected in the Argentinean national elections, which further contributed to the social and economic unrest, and led to a significant devaluation of the Peso relative to the U.S. Dollar. In 2017, the Peso was further devalued at a rate of 17% at the end of 2017 compared to the end of 2016. In addition, 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.

***Economic uncertainty and volatility in Brazil may adversely affect our business.***

Our subsidiaries, Pointer do Brasil Comercial Ltda. or Pointer Brazil, and Cielo, operate in Brazil, which has periodically experienced extremely high rates of inflation. Inflation, along with governmental measures to fight inflation and public speculation about possible future measures, has had significant negative effects on the Brazilian economy. The annual rates of inflation, as measured by the Índice Nacional de Preços ao Consumidor (National Consumer Price Index), reached a hyper-inflationary peak of 2,489.1% in 1993. Brazilian inflation, as measured by the same index, was 5.6% in 2013, 6.2% in 2014, 10.67% in 2015, 6.58% in 2016 and 2.95% in 2017. Brazil may experience high levels of inflation in the future. There can be no assurance of lower levels of inflation going forward. Future governmental actions, including actions to adjust the value of the Real, may trigger increases in inflation. There can be no assurance that inflation will not affect our business in Brazil in the future. In addition, any Brazilian government's actions to maintain economic stability, as well as public speculation about possible future actions, may contribute significantly to economic uncertainty in Brazil. It is also difficult to assess the impact that turmoil in the credit markets will have on the Brazilian economy and on our future operations and financial results or our operations in Brazil.

The Brazilian currency has devalued frequently, including during the last two decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations and periodic mini-devaluations, during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. There have been significant fluctuations in the exchange rates between Brazilian currency and the U.S. Dollar and other currencies.

Devaluation of the Real relative to the U.S. Dollar may create additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary governmental policies to curb aggregate demand. On the other hand, further appreciation of the Real against the U.S. Dollar may lead to a deterioration of the current account and the balance of payments, as well as dampen export-driven growth. The potential impact of the floating exchange rate and measures of the Brazilian government aimed at stabilizing the Real is uncertain. In addition, a substantial increase in inflation may weaken investor confidence in Brazil, impacting our ability to finance our operations in Brazil.

***The Brazilian government has exercised, and may continue to exercise, significant influence over the Brazilian economy.***

The Brazilian economy has been characterized by significant involvement on the part of the Brazilian government, which often changes monetary, credit and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and affect other policies have often involved wage and price controls, the Central Bank's base interest rates, as well as other measures.

Actions taken by the Brazilian government concerning the economy may have important effects on Brazilian corporations and other entities. Our financial condition and results of operations in Brazil may be adversely affected by the following factors and the Brazilian government's response to the following factors:

- devaluations and other exchange rate movements;
- inflation;
- investments;
- exchange control policies;
- employment levels;
- social instability;
- price instability;
- energy shortages;
- interest rates;
- liquidity of domestic capital and lending markets;
- tax policy; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

***Allegations of political corruption against the Brazilian federal government and the Brazilian legislative branch could create economic and political instability.***

In the past, members of the federal government and of the Brazilian legislative branch have faced allegations of political corruption. As a result, a number of politicians, including senior federal officials and congressmen, resigned and/or have been arrested in recent years. This situation reached its peak in 2016, when allegations against the Brazilian president led to her impeachment by the Brazilian Senate. In addition, over the past years, several members of the Brazilian executive and legislative branches of government were investigated as a result of allegations of unethical and illegal conduct. Such investigations and allegations, including the impeachment of the Brazilian president in 2016, have had an adverse impact on the image and reputation of the investigated bodies, in addition to adversely impacting the Brazilian economy and the general market perception of it, and the conclusion of these proceedings or further allegations of illicit conduct could have additional adverse effects in the Brazilian economy. We cannot predict whether such allegations will lead to further instability or whether new allegations against key

Brazilian government officials will arise in the future. In addition, we cannot predict the outcome of any such allegations, their effect on the Brazilian economy and, by extension, the result on our business in Brazil.

***Economic uncertainty and volatility in Mexico may adversely affect our business.***

Our subsidiary, Pointer Mexico, operates in Mexico, which has gradually experienced, since 2013, substantial decrease in the value of the Mexican Peso against the U.S. dollar, together with growing inflation rates. Uncertainty about future U.S. policies with respect to Mexico caused further devaluation of the Mexican Peso against the U.S. dollar since the U.S. elections in November 2016. The devaluation of the Mexican Peso and rise in inflation rate has triggered demonstrations and heightened political tension. Severe devaluation may lead to future governmental actions, including actions to adjust the value of the Mexican Peso, policies which may trigger further increases in inflation. There can be no assurance that inflation will not affect our business in Mexico in the future. In addition, any Mexican government's actions to maintain economic stability, as well as public speculation about possible future actions, may contribute significantly to economic uncertainty in Mexico. Economic instability and or government imposition of exchange controls may also result in the disruption of the international foreign exchange markets and may limit our ability to transfer or convert pesos into U.S. dollars and other currencies. Such policies could destabilize the country and adversely and materially affect the economy, and thereby our business. Additionally, due to agreements with the Confederation of Workers of Mexico (CTM) in Mexico and the country's high inflation rate, we may be required to increase employee salaries at a rate which could adversely affect Pointer Mexico's business.

**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, MRM segment's headquarters and the Cellocator segment's headquarters, are located in Israel, as well as the majority of the MRM segment 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 number of armed conflicts have taken place between Israel and its Arab neighbors. Any hostilities involving Israel or the interruption or curtailment of trade within Israel or between Israel and its trading partners could adversely affect our operations and could make it more difficult for us to raise capital. Since September 2000, there has been a high level of violence between Israel and the Palestinians. Hamas, an Islamist movement responsible for many attacks, including missile strikes, against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority in January 2006 and took control of the entire Gaza Strip by force in June 2007. Hamas has launched hundreds of missiles from the Gaza Strip against Israeli population centers, disrupting day-to-day civilian life in southern Israel. This led to an armed conflict between Israel and Hamas during December 2008 and January 2009, and continued sporadic missile launching from the Gaza strip to south Israel. Thereafter, in November 2012 and July 2014, there were additional armed conflicts, involving attacks by hundreds of missiles fired from the Gaza Strip against Israeli population centers throughout the southern half of Israel and up to and including Tel-Aviv. Since October 2015, and to a lower extent since August 2016, Israel has encountered another escalation in violence with the Palestinian population, which has resulted clashes between Israel and armed Palestinians on the border with Gaza, in the West Bank and in Israeli cities. Any damage to our Israeli facilities would damage our ability to manufacture our products and could otherwise damage our operation and have an adverse effect on our business, financial condition or results of operations. More generally, any armed conflicts, terrorist activities or political instability in the region would likely negatively affect business conditions and could harm our results of operations, including following termination of such conflicts, due to a decrease in the number of tourists visiting Israel. During the last several years, several countries in the region, including Egypt and Syria, have been experiencing increased political instability, which led to change in government in some of these countries (including Egypt), the effects of which are currently difficult to assess. Furthermore, 2014 saw the rise of an Islamic fundamentalist group, known as ISIS. Following swift conquering operations, ISIS gained control of vast areas in the Middle East, including in Iraq and Syria, which contributed to the turmoil experienced in these areas. As a result, the United States armed forces have engaged in limited operations to eradicate ISIS, following which Russia's armed forces have also engaged in limited operations to defeat ISIS and other rebel groups operating in Syria. 2017 saw several defeats by ISIS, and the establishment of Hezbollah and other Shiite groups in Syria. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon. These situations may potentially escalate in the future to violent events which may affect Israel and us.

Any downturn in the Israeli economy may also 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 our Cellocator products and MRM services 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 SVR 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 we provide.

Further, in the past, the State of Israel and Israeli companies have been subjected to economic boycotts. Several countries still restrict business and trade activity with the State of Israel and Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial condition or the expansion of our business.

***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 2017, the NIS increased in relation to the U.S. Dollar by 10.4%. As of December 31, 2017, our revenues in NIS accounted for approximately 45% of our total revenues in 2017. Approximately 32% of our expenses (primarily labor expenses of the operations of our Cellocator segment and MRM segment 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, 2017, 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, Brazilian Real, Mexican Pesos and South African Rand. Loans and credit facilities in the amount of approximately \$9.9 million, constituting approximately 98% 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 a lagging basis) if our revenues in NIS are higher than our expenses in NIS and/or the amount of our assets in NIS are higher than our liabilities in NIS. Alternatively, our results may be adversely affected by appreciation of the NIS in relation to the Dollar (or if such appreciation is on a lagging basis), if the amount of our expenses in NIS are higher than the amount of our revenues in NIS and/or the amount of our liabilities in NIS are higher than our assets in NIS. We may utilize partial hedging to manage currency risk. For example, in 2013, in connection with our acquisition of Pointer Brazil, we entered into a foreign currency hedging transaction in order to partially manage the risk related to Brazilian Real. In 2017 we did not enter into any foreign currency hedging transactions. See Item 4.A. - History and Development of the Company- Recent Developments. Therefore, to the extent that our currency risk is not hedged or sufficiently 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 - Operating and Financial Review and Prospects, and Item 11 - Quantitative and Qualitative Disclosures About Market Risk.

***We may be adversely affected by a change of the Israeli, Brazilian, Argentinian, Mexican and South African 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, 2017, we have no loans linked to Israeli CPI. However, should we require additional financing by means of loans linked to the Israeli CPI, we will be 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 U.S. 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 workday, pension contributions, insurance for work-related accidents, 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, 2017, we did not increase the salaries of our employees in Israel due to an increase in inflation. However, due to new legislation, between April 2015 and December 2017, the minimum wage in Israel gradually increased from NIS 4,300 to NIS 5,300. This increase has had an effect on our cost of operations in Israel.

In Brazil, Argentina and South Africa, in 2017, due to an increase in inflation, we increased the salaries of most 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 for programs or to receive grants 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, such as the India-China Fund of the Ministry of Economy. 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.

*Israeli government programs and benefits which we previously received require us to meet several conditions in order to transfer intellectual property developed using government funding abroad, or in order to consummate a change in control.*

We have received grants from the Government of Israel through programs with the Office of the Chief Scientist of the Israeli Ministry of Economy and Industry, or OCS, as it was known prior to Amendment No. 7 (the “**R&D Amendment**”) to the Israeli Law for the Encouragement of Industrial Research and Development, 1984, and related regulations (the “**R&D Law**”), now known as the Israel Innovation Authority (the “**IIA**”).

On July 29, 2015, the Israeli Parliament, the Knesset, enacted the R&D Amendment, which, effective as of January 1, 2016, amends material provisions of the R&D Law, including royalty rates, changes to royalty rates upon transfer of manufacturing rights abroad, etc., leaves substantial discretion with the newly established IIA, and until recently, included only guidelines to some of the core issues of the R&D Law, thus causing much ambiguity as to the implementation of the R&D Amendment and its effect on companies which developed know-how using funds received from the OCS. The IIA has recently published a directive incorporating most of the former provisions, including those with respect to transfer of manufacturing rights, transfer of know-how and others. These provisions include limitations and requirements for payment with respect to outsourcing or transferring development or manufacturing activities with respect to any product or technology outside of Israel, and change in control in companies who received government funding from the OCS or IIA, which may impair our ability to sell our technology assets outside of Israel or to outsource, transfer development or manufacturing activities with respect to any product or technology outside of Israel, or consummate a change in control in the Company.

*It may be difficult and costly to enforce a judgment issued in the United States against us, our executive officers and directors, or to assert United States securities laws claims in Israel or serve process on our officers and directors.*

We are incorporated and headquartered in Israel. 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. Additionally, it may be difficult for you to enforce civil liabilities under United States federal securities laws in original actions instituted in Israel.

#### 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 on 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 Website is [www.pointer.com](http://www.pointer.com). Information on our website 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 Pointer Argentina S.A., 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 Brasil Comercial Ltda. or Pointer Brazil are located in Sao Paulo, Brazil; the headquarters of our subsidiary Cielo are located in Passo Fundo, Brazil; the headquarters of our subsidiary, Pointer Telocation Inc., are located in Florida, USA; the headquarters of our subsidiary, Pointer Telocation India, or Pointer India, are located in Maharashtra, India; and the headquarters of our subsidiary, Pointer SA (PTY) Ltd., or Pointer South Africa, are located in Cape Town, South Africa.

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

In 2001, the Company purchased shares in Pointer Argentina (previously known as Tracsat S.A. and Pointer Localization Y Asistencia S.A.), a corporation incorporated in Argentina. The Company currently holds 93% of the shares in Pointer Argentina.

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, Argentina and South Africa, and the establishment of subsidiaries and affiliates in Mexico and Brazil.

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.

In August 2008, we incorporated a company in Brazil by the name of Cellocator Commercial S.A., which was later renamed Pointer do Brasil Comercial S.A. On October 14, 2013 we completed the acquisition of Pointer Brazil by

acquiring the outstanding shares that we did not previously own, following which it became our fully owned subsidiary. As of March 2014, Pointer do Brasil Comercial S.A. changed its legal form from a corporation to a limited liability company (LLC), and its trading name from Pointer do Brasil Comercial S.A., to Pointer do Brasil Comercial Ltda. In May 2014, Pointer do Brasil Comercial merged with Pointer do Brasil Participações Ltda. As a result of this merger, we now hold 100% of Pointer do Brasil Comercial Ltda.

In October 2008, we established a wholly-owned subsidiary in the United States, Pointer Telocation Inc. in order to introduce our Cellocator segment portfolio of products to the North American market.

In May 2012, we established a wholly-owned subsidiary in India, Pointer Telocation India, in order to introduce our Cellocator segment portfolio of products to the Indian market.

In January 2014, we completed the acquisition of Shagrir Systems by acquiring all of the outstanding shares that we did not previously own.

In addition, we completed the acquisition of Pointer SA (PTY) Ltd. in South Africa in September 2014 and completed the acquisition of Pointer Mexico in September 2015 by acquiring all of the outstanding shares of each that we did not previously own. In October 2017, we purchased the activities of Neo-Trac South Africa Proprietary Limited and T-Trac SA Proprietary Limited, South African companies, which were integrated into Pointer South Africa. The activities include a fleet of approximately 2,400 vehicles. Additionally, we sold 12% of the issued share capital of Pointer South Africa to Preshnee Moodley.

On October 7, 2016, we completed the acquisition of Cielo through our subsidiary Pointer Brazil, which acquired 100% of Cielo's shares. We are currently in the process of merging Cielo with and into Pointer Brazil for the purpose of optimizing the operations and technology offered by Pointer Brazil and Cielo, however, there can be no assurance that such merger will take place as planned and that such merger will achieve the desired outcomes.

On May 15, 2009, Pointer purchased 51% of the share capital of Car2go Ltd., or Car2go, an Israeli company that offers car sharing services in urban areas in Israel. On December 30, 2014, we completed the transfer of our previously owned RSA segment and the assets and liabilities of Shagrir Systems into a new wholly owned subsidiary (as of the date thereof), Shagrir Group. Following this transfer, Shagrir Systems, with its remaining assets (primarily Fleet Management and Stolen Vehicle Recovery services), was merged into Pointer effective as of December 31, 2014 (the "**Reorganization**"). In July 2015, Pointer sold its entire interest in Car2Go to Shagrir Group.

On June 28, 2016, Pointer completed the Shagrir Spin-off, following which the shares of Shagrir Group commenced trading on the TASE. Following the completion of the Shagrir Spin-off, none of the ordinary shares of Shagrir Group are held by Pointer. See "Item 4.B. – Information on the Company – Business Overview."

In September 2015, we completed the acquisition of Pointer Mexico by acquiring the 26% of the issued share capital of Pointer Mexico that we did not previously own, from Pointer Recuperacion de Mexico, S. de R.L. de C.V. (the “**Pointer Mexico Sellers**”), in consideration for the issuance of 81,081 of our ordinary shares to the Pointer Mexico Sellers. This acquisition was designed to streamline and simplify our Mexican operations.

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. In connection with our Reorganization in December 2014, the Company's management determined to control and manage the results of the Company's business in three operating segments, which were in effect until the completion of the Shagrir Spin-off. Pursuant to Shagrir Spin-off the RSA segment is presented in our financial statements as Discontinued Operation segment and our reporting was retroactively adjusted to reflect that change, so that the results of the Company's business are now presented by means of two operating segments.

- Cellocator segment** - we design, develop and produce leading mobile resource management products that include
1. asset management, fleet management and security products for sale to telematics service providers and distributors in approximately 80 countries, as well as to our telematics service provider subsidiaries.
- MRM segment** - acts as an operator primarily in Israel, Brazil, Argentina, Mexico and South Africa by bundling
2. our products together with a range of MRM services, including fleet management, asset management services and stolen vehicle retrieval services.
- RSA segment** – we acted as an operator in Israel, provided roadside assistance services, emergency repair services
3. for sale primarily to automotive and insurance companies and car sharing services. See Item 4.B. – Business Overview for a further description of our business segments.

Following the completion of the Shagrir Spin-off, the Company controls and manages the results of the Company's business in two operating segments – the Cellocator segment and the MRM segment, both as detailed above. We may offer products developed under our Cellocator segment, services under our MRM segment, or a combination thereof, as an intersegment bundle.

In June 2016, we filed a “shelf” registration statement with the Securities and Exchange Commission, or SEC, which was declared effective on July 7, 2016. We may sell up to \$25,000,000 of our ordinary shares in one or more offerings pursuant to this registration statement. Our management will have broad discretion over the use of the net proceeds from the sale of our securities pursuant to this registration statement. Unless otherwise indicated in any accompanying prospectus supplement, we currently intend to use the net proceeds from the sale of the securities offered pursuant to this prospectus for general corporate purposes and working capital requirements.

## B. BUSINESS OVERVIEW

### A. General

Pointer Telocation is a leading provider of MRM products and services for the mobile assets management (such as cargo, assets, containers, etc.) and the automotive, insurance industries. Our products segment Cellocator, is focused on the design, development and production of leading MRM products including: devices for asset management; fleet management and security products. These products are both sold worldwide to third party MRM service providers, as well as internally to our own MRM service provider segment. Communication systems contained within our products and tracking hardware utilize either radio frequency or GPRS/GSM technologies. Our services segment MRM, offers a range of services including, *inter alia*: asset management; fleet management services; and SVR. MRM services are provided primarily in Israel, Brazil, Argentina, Mexico and South Africa and are sold as a bundle which includes both customizable software-as-a-service (SaaS) and our state-of-the-art Cellocator products, which are accordingly calibrated to meet the individual demands of customers and their software needs.

Prior to the Shagrir Spin-off additional services were provided by the RSA segment in Israel, which included RSA services, emergency home repair services and automotive garage repairs mainly for insurance companies, fleets and individual private customers.

In 2017, revenues generated by our Cellocator products segment accounted for 31% of group revenues and revenues generated by our MRM services segment made up 80% of group revenues (including 11% intersegment revenues). Income generated from our former RSA services segment is being presented in our annual financial statements as Income from Discontinued Operations. For additional information regarding our Discontinued Operation see Note 18 to our Financial Statements.

### MRM Segment

We provide MRM services in Israel mainly through Pointer and abroad through our local subsidiaries Pointer Argentina, Pointer Mexico, Pointer Brazil, Cielo and Pointer South Africa, and to a lesser extent globally via SaaS. In providing MRM services Pointer purchases products manufactured by our Cellocator segment and by third party operators, mainly accessories, such as alarm systems.

Our MRM services segment currently provides the following range of MRM services:

(i) *Asset Management services*

Our asset management services in Israel, Argentina, Mexico, Brazil and South Africa provide MRM services to assets both with and/or without an on board power supply. Accordingly these MRM devices include an energy management feature which is relayed to the command and control software that monitors the resources. Our asset management services in Israel, Argentina, Mexico, Brazil and South Africa provide MRM services to assets:

With or without an on board power supply. Accordingly, these MRM devices include an energy management a. feature which is relayed to the command and control cloud-based services that monitor the resources, assist in the management decision-making process and contributes to the operation efficiency.

b. Cargo delivery real-time monitoring based on multi-sensors capability and a monitoring and control web based SW (IOT).

(ii) *Fleet management services*

Our fleet management services in Israel, Argentina, Mexico, Brazil and South Africa 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 location, speed, on board car computer and other inputs, driver behavior, and can receive reports and alerts, either automatically or upon request wirelessly via the internet, GPRS or an SMS.

(iii) *SVR services*

We provide SVR services predominantly in Israel and to a lesser extent in Argentina and Brazil. Most of the SVR products used to provide our SVR services are mainly sold to (i) local car dealers (importers) that in turn sell the products equipped in the vehicle to the end users which purchase the SVR services directly from us, or (ii) to leasing companies which purchase our SVR services in order to secure their own vehicles.

(iv) *Connected Car services*

In addition, in order to increase the added value services for our car dealer customers and end users, we have developed a connected car solution which we provide based on the car infotainment system, which as of the date of this report, is offered by us in Israel only. While the connected car solution enables the car dealer to preserve continuance relationship with the end users, it provides the end users with a more friendly and richer user interface and enables us to expand our consumer target market to vehicles which do not require SVR services.

## **Cellocator Segment**

Our Cellocator segment designs, develops and produces market leading customizable MRM products that utilize various Radio Frequency (RF) and Cellular (GSM/GPRS/UMTS/CDMA/LTE) communication technologies. Cellocator products are both sold and distributed to our MRM segment in Latin America, Israel and South Africa, as well as third party operators all over the world. Both Pointer and third party operators typically bundle our products with the services provided.

Cellocator develops, manufactures and distributes the following products:

(i) *Fleet and asset management products*

Our fleet and asset management products: enhance the utilization of fleet vehicles and other mobile resources, minimize operational costs (for example through fuel savings and efficiency); and provide detailed statistics on multiple aspects of vehicle usage to minimize repair and maintenance costs by helping fleet managers spot critical issues in advance. Fleet management products also include remote monitoring and control solutions that are included as part of our SVR product line (as mentioned above) such as the CCC and communications infrastructure. We also provide operators with end units that once installed in a vehicle provide online monitoring of the operating parameters of a fleet vehicle as well as details on driver behavior and vehicle diagnostics. These units retrieve and relay data utilizing various sensors that are installed in the vehicle. Technologies relied upon for these aspects include: RS-232; CANBUS and OBDII, standard 1-wire (Dallas) serial communication, analog and discrete I/O ports, Bluetooth etc. Reports summarizing results are fed back to fleet managers through web-based or OS-based monitoring and management location applications.

In addition, we provide web access required for the execution of vehicular, fleet and asset management operations. All of our fleet and asset management services are offered on an SaaS (Software as a Service) or Enterprise model (the “**Pointer Fleet**”). Pointer Fleet delivers a complete web offering for commercial fleet operators, which enables them to effectively and efficiently manage their day-to-day fleet activities. Pointer Fleet enables improving and maintaining high ratio of fleet utilization, reduced operational costs and fast ROI for vertical markets such as, trucking, distribution and logistics, government and municipalities etc.

(ii) *Asset Management products*

Our line of asset management products are designed to track and monitor cargo transported in trailers and containers and or specialized equipment used, among other things, for construction or agricultural purposes. Our products include tracking, remote sensing, communication and maintenance capabilities, providing enhanced functionality for advanced asset management and monitoring of both mobile assets and assets without a constant power supply. Through successful tracking and monitoring of assets, Cellocator products help our customers minimize in many cases otherwise unavoidable financial losses relating to the loss, theft or damage to their aforementioned assets or cargo.

(iii) *Stolen vehicle retrieval (SVR) products*

Our SVR products are designed to detect vehicles which are being stolen and enable their retrieval through co-operation with law enforcement and private security agencies. Our products incorporate either a Frequency

Hopping spread spectrum technology (FHSS) 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 and/or operators are informed by the owners of the vehicles themselves. The products transmit information to a command & control center, or 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 a 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 input and output 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. The CCC may send commands to the end unit activating certain outputs. Installation and de-installation of end units in vehicles or on assets are performed by either employees or subcontractors of the operator, usually in designated installation centers. Assets may include 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 SW** - The CCC includes software modules required for the execution of certain operations by the operator, as well as monitors to display data collected from the end units which is then 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 operation or radio frequency infrastructure with base stations. These stations are dispersed throughout a specific territory and are connected to 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 a GPS device contained within the vehicle.

Cellocator distributes and sells products to our MRM segment and to third party operators and distributors in 50 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.

## **Shagrir Spin-off**

On December 1, 2014, we announced that our board of directors had approved a plan to spin off certain assets into a stand-alone publicly traded company in Israel through a distribution to our shareholders of all of the ordinary shares of the new spin-off company (Shagrir Group) that would hold, directly or indirectly, the RSA assets. As a preliminary stage for the completion of the Shagrir Spin-Off, Pointer listed for trading on the TASE and as of April 6, 2016, is traded both on the NASDAQ Capital Market and on the TASE.

On May 27, 2016, we furnished an Information Statement on Form 6-K for the purpose of effecting the Shagrir Spin-off by way of a distribution of approximately 97.36% of its holdings of Shagrir Group to the holders of our ordinary shares (of the remaining shares of Shagrir Group, approximately 1.72% are held following the completion of the Shagrir Spin-off by the employees of Shagrir Group and approximately 0.92% were transferred to Barak Capital Underwriters Ltd. (“**Barak**”), for sale to the public over the 12 month period following the completion of thereof. The shares transferred to Barak were sold immediately following the completion of the Shagrir Spin-off).

Our shareholders who were entitled to participate in the Shagrir Spin-off were entitled to receive one Shagrir Group ordinary share for each Pointer ordinary share held on the Shagrir Spin-off record date subject to withholding tax deductions detailed therein. See Item 10E – Taxation and Government Programs for information relating to taxation in connection with the Shagrir Spin-off. Our shareholders were not required to pay any consideration for the Shagrir Group ordinary shares that they were entitled to receive in the Shagrir Spin-off or to surrender or exchange Pointer ordinary shares in order to be entitled to receive Shagrir Group ordinary shares. The record date for participation in the Shagrir Spin-off was June 6, 2016, and the ex-dividend date was June 7, 2016.

We completed the Shagrir Spin-off on June 28, 2016, and the shares of Shagrir Group commenced trading on the TASE on June 28, 2016.

## ***B. Sales and Marketing***

Our SVR services in Israel are marketed primarily through vehicle importers and, to a lesser extent, through fleet vehicle operators, leasing companies and private individuals. Our 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 to commercial fleets through our in-house sales and marketing team.

Data captured by the sales and marketing team from sales to insurance companies and agents, fleet vehicle customers and private customers is accordingly analysed and used to formulate future sales and marketing strategies.

*Brazil, Argentina, Mexico, and South Africa*

Our Brazilian, Argentinean Mexican and South African subsidiaries (Pointer Brazil and Cielo, Pointer Argentina, Pointer Mexico and Pointer South Africa, respectively), employ in-house sales and marketing teams as well as third party contractors and distributors that focus their efforts on sales and marketing to fleet operators and asset management companies.

We develop comprehensive solutions to customers leveraging our in-house technology in Cellocator to provide competitive solutions, to maintain customer's loyalty and decrease churn. As a result, our customers get access to their data which is stored via "cloud computing", and Business Intelligence reports which we develop.

The company services are largely based on cloud computing (and the company's operations in Israel and international subsidiaries' services are exclusively based on cloud computing) and we intend to continue to invest in, and use, cloud computing.

**Cellocator Segment**

We employ an in-house sales and marketing team that sells our products to operators in various countries either directly or through distributors. In addition, we have established local sales offices in countries such as the United States, India, Colombia and Mexico.

***C. Patents and Licenses; Government Regulation***

In Israel, we are not dependent on any patents or licenses that are material to our business or profitability.

Fleet management services are based entirely upon Cellular Monitoring Units and therefore require no specific governmental licenses.

In May 1996, Shagrir Systems was granted an operational license from the Ministry of Communications in Israel to operate our wireless messaging system over 2 MHz in the 966 to 968 MHz radio spectrum band. Since 1999, this license has been renewed on a regular basis and has been transferred to Pointer following the Reorganization.

Pointer Argentina obtains domestic licenses for the deployment of our SVR operation in Argentina and local operators are required to obtain a specific license for their operations.

We are currently registered by the Federal Commission in Mexico to provide our services.

Our South African subsidiary is currently registered as a security service provider under the Private Security Industry Regulation Act, 2001.

Our Cellocator segment obtains licenses from the Israeli Ministry of Communications in order to manufacture, import, market and sell its products in Israel.

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 from 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. In general, applications for regulatory approvals to date have not been problematic. This being said, regulatory schemes in each country vary and may change from time to time. Hence, we cannot guarantee that approvals already obtained are or will remain sufficient in the view of regulatory authorities indefinitely. In addition, we cannot state with certainty that operators of our systems will obtain licenses and approvals in a timely manner in all jurisdictions in which we wish to sell our systems, or that potential restrictions which may arise pertaining to the use of our systems will not be unduly burdensome.

#### ***D. Competition***

##### **MRM Segment**

In Israel, in the SVR and fleet management market, our main direct competitor is Ituran Location & Control Ltd. (“**Ituran**”). In the fleet business, we face competition from Ituran, ISR Corp, Trafilog Ltd. and other smaller companies.

Our primary competitors in the fleet management services market in Argentina are Megatrans SA Sitrack.com Argentina SA, while in Mexico, we face competition mainly from Qualcomm Inc., CSI, Encontract SA de CV, Copolito, Unicom and UDA.

In Brazil, we face competition mainly from Sascar Tecnologia E Segurança Automotiva SA, Zatic SA, Qualcomm Inc., Golsat and others. In the fleet management services market most competitors are focused on the provision of low or entry level vehicle monitoring services and solutions. Fewer competitors operating in these countries compete on like-for-like basis with our Pointer Fleet solution, which offers more sophisticated analytics, reporting, diagnostics and driving pattern tracking that relies upon an active management approach. Nonetheless, the higher-end market in which we compete is relatively competitive and we have witnessed the recent penetration of international companies, such as Mix Telematics and Telogis, to Brazil.

In South Africa we face competition mainly from Mix Telematics Ltd., C-Track (Digicore) and Cartrack which have both SVR & fleet solutions.

In addition, within the markets described above and other potential markets (such as mobile resource management) service providers who, directly or indirectly, compete with us employ other technologies such as hybrid combination of Cellular GPRS with two-way satellite communications which allow service in area without Cellular GPRS. These systems rely on GPRS communication and when GPRS is unavailable, they switch to a two-way satellite channel to ensure constant communications availability.

## **Cellocator Segment**

Several companies manufacture vehicle devices based on GPS/Cellular technology. Predominant differences between GPS/Cellular devices are mainly a result of unique proprietary firmware offered by each competitor. This firmware enables the connectivity of applications (for monitoring, management and sensor-data inputs) and the connectivity of products to each competing provider's individual networks. Differences between products are to a lesser extent a result of differences in the hardware itself and or the packaging/casing of the hardware, which is broadly homogenous.

Cellocator focuses on providing mid-higher level products, which include advanced technology (requiring significant R&D expenditures) and customization ability, where there are high barriers to entry and high price points for the products. Cellocator has more significant competition in the lower-end products, given that due to the nature of the technology included in such products the barriers to entry are lower. As so, Cellocator is entering the field of asset & cargo monitoring adding BLE technologies and offers products which support various cellular networks including 2G, 3G and LTE networks

In Europe and Latin America, our Cellocator products segment predominantly sells GPS/Cellular based vehicle devices. Relatively strong competition exists within the GPS/Cellular field. Here, competing manufacturers are introducing competitively priced vehicle devices with varying performance features. Our primary competitors in the GPS/Cellular based vehicle device market in Americas include Calamp, Skypatrol LLC, Digital Communications Technologies LLC (Antares GPS), Maxtrac, Continental GPS Tracking Ltd. and Portman Security System International Co. Ltd. Our competitors in Europe principally include: Ruptela, GPS Tracking Network Inc. (Enfora); Uab Teltonika; Falcom GmbH; Skope Solutions; and Digicore Holdings Ltd. and Queclink worldwide. Lately, we face aggressive competition from Chinese companies such as Queclink on the entry level low end devices.

### ***E. Seasonality***

Both our Cellocator products segment and MRM services segment are not significantly seasonal.

### ***Principal Markets***

For the breakdown of our revenues by category of segments please see Item 3 - Selected financial data. The following is a breakdown of our revenues (in U.S. dollars) by category of activity, including the percentage of our total consolidated sales for each period. Pursuant to Shagrir Spin-off the RSA segment is presented in our financial

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statements as Discontinued Operation and the segments reporting was retroactively adjusted to reflect that change. The following two tables were adjusted to reflect our results pursuant to the Shagrir Spin-off.

	<b>2017</b>		<b>2016</b>		<b>2015</b>	
	<b>%</b>	<b>In</b>	<b>%</b>	<b>In</b>	<b>%</b>	<b>In</b>
	<b>of</b>	<b>thousands</b>	<b>of</b>	<b>thousands</b>	<b>of</b>	<b>thousands</b>
	<b>our</b>		<b>our</b>		<b>our</b>	
	<b>total</b>		<b>total</b>		<b>total</b>	
	<b>sales</b>		<b>sales</b>		<b>sales</b>	
MRM Services:	80 %	62,208	77 %	49,620	79 %	47,938
Cellocator Products:	31 %	24,364	35 %	22,707	32 %	19,489
Intersegment elimination	(11 )%	(8,417 )	(12 )%	(7,974 )	(11 )%	(6,860 )
Total:	100%	78,155	100%	64,353	100%	60,567

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

	<b>2017</b>		<b>2016</b>		<b>2015</b>	
	<b>%</b>	<b>In</b>	<b>%</b>	<b>In</b>	<b>%</b>	<b>In</b>
	<b>of</b>	<b>thousands</b>	<b>of</b>	<b>thousands</b>	<b>of</b>	<b>thousands</b>
	<b>our</b>		<b>our</b>		<b>our</b>	
	<b>total</b>		<b>total</b>		<b>total</b>	
	<b>sales</b>		<b>sales</b>		<b>sales</b>	
Israel	45 %	35,230	46 %	29,438	44 %	26,487
Latin America	36 %	28,458	31 %	20,146	32 %	19,391
Europe	6 %	4,413	7 %	4,501	9 %	5,271
Other	13 %	10,054	16 %	10,268	15 %	9,418
Total	100 %	78,155	100 %	64,353	100 %	60,567

#### 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 Argentina S.A. (1)
Mexico	Pointer Recuperacion Mexico S.A. (2)
Brazil	Pointer do Brasil Comercial Ltda.(3)
Brazil	Cielo Telecom Ltda. (4)
USA	Pointer Telocation Inc. (5)
India	Pointer Telocation India (6)
South Africa	Pointer SA (PTY) Ltd. (7)

- (1) We hold 93% of the issued and outstanding shares of Pointer Argentina.
- (2) We hold 100% of the issued and outstanding shares of Pointer Mexico.
- (3) We hold 100% of Pointer Brazil.
- (4) Pointer Brazil holds 100% of the issued shares and outstanding of Cielo.
- (5) We hold 100% of the issued and outstanding shares of Pointer Telocation Inc.
- (6) We hold 100% of the issued and outstanding shares of Pointer Telocation India.
- (7) We hold 88% of the issued and outstanding shares of Pointer South Africa.



D. PROPERTY, PLANTS AND EQUIPMENT

Our executive offices, operational, research and development and laboratory facilities of Cellocator segment and our executive offices and operational offices of the MRM operation in Israel are located at 14 Hamelacha Street, Rosh Ha'ayin 4809133, Israel (a central suburb just outside of Tel Aviv) where we currently lease approximately 2,500 square meters with annual lease payments of approximately \$548,000. Our MRM call center and warehouse in Israel are located at 4 Hanapach Street, Holon where we currently lease approximately 440 square meters with annual lease payments of approximately \$72,000, we lease and sub-lease additional smaller facilities in various locations in Israel from Shagrir Group with annual lease payments of \$100,000 and we also lease antenna sites in various locations in Israel for an annual lease payment of \$122,000. For additional information regarding our lease agreements with Shagrir Group see "Item 7.B. Related Party Transactions". Pointer Argentina's offices and operations facility are located in Buenos Aires, Argentina. Pointer Argentina currently leases 905 square meters (including 505 square meters used by its installation centers) with an annual lease payment of \$119,000. Pointer Brazil's offices and operations facility are located in Sao Paulo, Brazil. Pointer Brazil currently leases 759 square meters with an annual lease payment of \$131,000. Cielo's offices and operations facilities are located in Passo Fundo Brazil. Cielo currently leases 1,000 square meters with an annual lease payment of \$33,000. For further information, please see Note 12d of our consolidated financial statements. Pointer South Africa offices and operations facility are located in Cape Town, Midrand and Durban South Africa. Pointer South Africa currently leases 1,484 square meters with an annual lease payment of \$216,000. The offices and operation facilities of Pointer Mexico are located in Mexico City, Mexico, where Pointer Mexico currently leases 400 square meters with an annual lease payment of \$114,000 USD.

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: (i) Cellocator Segment and (ii) MRM segment. Through our Cellocator segment, we design, develop and produce leading mobile resource management products, including asset management, fleet management and security products for sale to third party operators providing mobile resource management services worldwide, as well as to our MRM segment. Through our MRM segment, we act as an operator primarily in Israel, Brazil, Argentina, Mexico, and South Africa by bundling our products together with a range of mobile resource management services, including stolen vehicle retrieval services and fleet management services. Our results presented below with respect to 2016 and preceding years were adjusted to reflect the Shagrir Spin-off.

Our revenues are principally derived from (i) rendering services through our MRM segment and (ii) sales of our systems and products through our Cellocator segment, as well as through our MRM 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. Subsequent to 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. Our total revenues from our Cellocator segment in 2017 were \$24.4 million, which constituted approximately 31% of our total revenues, in comparison to \$22.7 million, which constituted approximately 35% of our total revenues following the completion of the Shagrir Spin-off in 2016. In 2017, our revenues from international customers arising out of our Cellocator segment were \$16.8 million, which constituted approximately 22% of our total revenues, in comparison to \$16.8 million in 2016, which constituted approximately 26% of our total revenues, and our revenues from Israeli local customers arising out of our Cellocator segment were \$7.6 million, which constituted approximately 10% of our total revenues, in comparison to \$5.9 million in 2016, which constituted approximately 9% of our total revenues.

Following our acquisition of Cellocator Ltd. in 2007, we acquired the remaining 51.2% of the issued share capital of Pointer Brazil in 2013, acquired Pointer South Africa, completed the Company's Reorganization as of December 30, 2014, acquired the remaining 26% of the issued share capital of Pointer Mexico in 2015 acquired Cielo in October 2016, acquired the activities of Neo-Trac South Africa Proprietary Limited and T-Trac SA Proprietary Limited and sold 12% of our issued share capital in Pointer South Africa to Ms. Preshnee Moodley in October 2017, and expanded our operations and increased our revenues from the MRM segment in Israel and abroad. Our revenues from MRM customers in Israel in 2017 were \$35.0 million, which constituted approximately 45% of our total revenues, in comparison to \$29.2 million in 2016, which constituted approximately 45% of our total revenues. In 2017, our revenues from international customers were \$43.0 million, which constituted approximately 55% of our total revenues, in comparison to \$34.9 million in 2016, which constituted approximately 54% of our total revenues.



### ***Acquisitions and Initiatives***

As part of our strategy, we have pursued and may continue to pursue acquisitions and other initiatives 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 \$42.9 million and \$40.3 million as of December 31, 2017 and 2016, respectively. See Item 4 – History and Development of the Company for further information on our acquisitions. See also Item 5 - Costs and Expenses for further discussion on the impairment loss recorded in 2016 and 2017.

### ***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 \$4.1 million, \$3.7 million and \$3.4 million in the fiscal years ended December 31, 2017, 2016 and 2015, respectively.

### ***Business Challenges / Areas of Focus***

Our primary areas of focus and business with respect to each of our segments include:

#### MRM segment

- Continuing the growth, revenues and profitability of our products and services by the subsidiaries;
- Penetrating new markets, through the products of our Cellocator segment, and strengthening our presence in existing markets by proposing a full scope of services;
- Penetrating new territories;
- Vertical markets such as trailers and containers;
- Achieving operating profitability of our MRM segment affiliates by increasing the number of subscribers using our technology;

#### Cellocator segment

· Continuing the growth, revenues and profitability of our products and services by the subsidiaries;  
· Enhancing and diversifying the introduction and recognition of our new products, including the products of our Cellocator segment, into the markets in which we already conduct actives; and  
· Penetrating new vertical markets such as monitoring of goods in transit, through the products of our Cellocator segment, and strengthening our presence in existing markets by proposing a full scope of services.

## **Revenues**

### ***Products***

The majority of our revenues from sale of products are generated through our Cellocator segment's sales of products manufactured by us and by third parties to our MRM segment subsidiaries in Israel, Latin America and South Africa and to third party operators worldwide. In addition, we generate revenues through our MRM segment from sales of products that are bundled together with our services. In 2017, as a result of very intense continued worldwide competition in the products market, especially in the lower-end, we continued to face price erosion that was partially offset by operational efficiency, cost reduction and mostly compensated by an increase in volumes and by presenting new more sophisticated products. We expect continuous price erosion in this market that may affect our gross margin and the profitability of our business. In order to offset such price erosion, we intend to continue to introduce new higher-end products to the market and vertical market with higher margins and continue in our cost reduction efforts of our product components.

### ***Services***

We generate revenues through our MRM segment from sales of our services primarily by our subsidiaries in Israel, Latin America and South Africa which we charge in local currencies.

The services included in our MRM segment are mainly mobile resource management, and other value added services. A majority of our revenues consist of subscription fees paid to us by our customers, which include both commercial companies and individuals.

## **Costs and Expenses**

### ***Cost of Revenues***

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.

Cost of revenues referring to services consists primarily of the operational costs of MRM, which mainly include salaries and employee benefits, subcontractors, system maintenance, end unit installation, system communications, security and recovery.

*Operating Expenses*

*Research and Development Expenses.*

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

*Selling and Marketing Expenses.*

Selling and marketing expenses consist primarily of expenses for salaries and employee benefits, sales commissions and other selling and marketing activities. We may also incur expenses in connection with independent contractors.

*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 lists 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 2015, as a result of an annual impairment test, the Company recorded impairment of Pointer Brazil goodwill and other intangible assets of \$0.9 million. These impairment costs were recorded in the Consolidated Statement of Operations under the captions "Impairment of intangible and tangible assets."

No impairment losses were identified in 2017 and 2016.

*Financial Income (Expenses), Net.*

Financial expenses consist mainly of bank charges and interest expenses, foreign currency transaction adjustments, devaluation of the NIS against the USD of cash and bank deposits in NIS and others. Financial income consists of revaluation of the NIS against the USD.

*Other Expenses, Net.*

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

*Tax expenses.*

Tax expenses consist of 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.

In 2017, we realized a deferred tax asset of \$9.2 million, mainly with respect to our carry forward loss, which was recorded following our determination that it is more likely than not that the deferred tax asset will be realized in future periods.

*Income from discontinued operation, Net.*

As a result of the Shagrir Spin-off, we have reclassified the net income from Shagrir Group as discontinued operations. For additional information see Item 4.B. – “Information on the Company – Business Overview” and Note 18 for further information regarding the Shagrir Spin-off.

**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 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 financial information presented below, with respect to 2016 and the preceding years, was adjusted to reflect the Shagrir Spin-off.

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

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

Service revenues including subscriber fees 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 08-1, “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.

When a sales arrangement contains multiple elements, such as hardware and services, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for each deliverable is based on its vendor specific objective evidence (“**VSOE**”), if available, third party evidence (“**TPE**”) if VSOE is not available, or estimated selling price (“**ESP**”) if neither VSOE nor TPE is available.

The company uses ESP to allocate the elements.

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.

Changes in the allowance for doubtful accounts during 2017 and 2016 are as follows:

**Year ended**

**December 31,**

2017    2016

Balance at beginning of the year	\$1,281	\$1,053
Deductions during the year	(992 )	(339 )
Charged to expenses	802	511
Foreign currency translation adjustment	36	56
Balance at end of year	\$1,127	\$1,281

### ***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.

### ***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. Intangible assets are stated at amortized cost.

- The brand names are amortized over a two to nine year period.
- The customers' related intangibles are amortized over a five to nine year period.
- The developed technology is amortized over a five year period.
- Backlog is amortized over a three year period.
- Non-competition agreement is amortized over a three year period.
- Reacquired rights are amortized over a five month period.
- Patents are amortized over an eight year period.

Customer related intangibles are amortized based on the accelerated method. For customer related intangibles in respect with to Pointer Brazil transaction during 2013 and the Cielo transaction during 2016, the Company used the straight line method. The differences from the accelerated method were immaterial.

The other intangibles are amortized based on the straight line method over the periods mentioned above.

The Company's long lived assets are reviewed for impairment in accordance with ASC 360-10-35, "Property, Plant, and Equipment- Subsequent Measurement" whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

No impairment losses were identified in 2017 and 2016.

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" the Company applies assumptions that marketplace participants would consider in determining the fair value of long-lived assets (or assets groups).

***(b) Goodwill impairment test***

Goodwill reflects the excess of the purchase price of the acquired activities over the fair value of net assets acquired. Pursuant to ASC 350, "Intangibles - Goodwill and Other", goodwill is not amortized but rather tested for impairment at least annually, at the reporting unit level.

We identified several reporting units based on the guidance of ASC 350. ASC 350 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures impairment.

Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. In such case, the second phase is then performed, and the Company measures impairment by comparing the carrying amount of the reporting unit's goodwill to the implied fair value of that goodwill. An impairment loss is recognized in an amount equal to the excess.

In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance allows companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The Company didn't apply the qualitative assessment option.

For information regarding goodwill impairment in 2015, see Notes 2g. to our financial statements. No impairment losses were identified in 2016 and 2017.



### *Share based compensation*

#### *Stock-Based Compensation Expense.*

We apply ASC 718, “Compensation - Stock Compensation” (formerly SFAS 123(R) “Share-Based Payment”). In accordance with ASC 718, all grants of employee’s equity based share 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.

Effective as of January 1, 2017, the Company adopted Accounting Standards Update 2016-09, “Compensation-Stock Compensation (Topic 718)” (“ASU2016-09”) on a modified, retrospective basis. ASU 2016-09 permits entities to make an accounting policy election related to how forfeitures will impact the recognition of compensation cost for stock - based compensation: to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures as they occur. Upon adoption of ASU 2016-09, the Company elected to change its accounting policy to account for forfeitures as they occur. Upon adoption of ASU 2016-09, the Company elected to change its accounting policy to account for forfeitures as they occur. Upon the adoption in the first quarter of 2017, the effect of the adoption on the Company’s retained earnings was immaterial.

During the years ended December 31, 2017, December 31, 2016 and December 31, 2015, we recognized share-based compensation expenses related to employee share options in the amounts of \$380 \$320, and \$309, respectively. See Note 2p. to our consolidated financial statements for additional information.

According to ASC 718, a change in any of the terms or conditions of the Company’s share options is accounted for as a modification. Therefore, if the terms of an award are modified, the Company calculates incremental compensation costs as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors existing at the modification date. For vested options, the Company recognizes any incremental compensation cost immediately in the period the modification occurs, whereas for unvested options, the Company recognizes, over the new requisite service period, any incremental compensation cost due to the modification and any remaining unrecognized compensation cost for the original award over its term.

### *Income taxes*

The company recorded tax income in the amount of \$9.2 million due to decrease in valuation allowance related to carry forward losses of the company and other temporary differences that are more likely than not to be offset against future income.

We account for income taxes and uncertain tax positions in accordance with ASC 740, "Income Taxes." This guidance prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized.

The Company established reserves for uncertain tax positions based on the evaluation of whether or not the Company's uncertain tax position is "more likely than not" to be sustained upon examination. As of December 31, 2017, the Company recorded a liability of \$127,000 for uncertain tax positions. As of December 31, 2016 the Company did not have any liability for uncertain tax position. 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, 2017, the Company did not recognize any interest and penalties associated with tax positions.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17) "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. The Company had early adopted this standard in the fourth quarter of 2015 on a retrospective basis. Prior years have been retrospectively adjusted.

### ***Discontinued operations***

Under ASC 205, "Presentation of Financial Statements - Discontinued Operation" when a component of an entity, as defined in ASC 205, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its disposal are classified as discontinued operations and the assets and liabilities of such component are classified as assets and liabilities attributed to discontinued operations; that is, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from the Company's consolidated operations and the Company will no longer have any significant continuing involvement in the operations of the component.

### ***Recently Issued Accounting Standards (not effective for fiscal 2017)***

In May 2014, the FASB issued Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for the Company in 2018 using either of two methods: (i) retrospective application of ASU 2014-09 to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective application of ASU 2014-09 with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09 ("Modified Retrospective Adoption Transition Method").



The Company has established an implementation team to analyze the potential impact the standard will have on its consolidated financial statements and related disclosures as well as its business processes, systems and controls. This includes reviewing revenue contracts across all revenue streams and evaluating potential differences that would result from applying the requirements under the standard. The Company will adopt the new standard on January 1, 2018 using the Modified Retrospective Adoption Transition Method.

The Company has completed its evaluation of the Standard and expects a change relating to the application of the legacy contingent revenue “cash cap” guidance in ASC 605-25, Revenue Recognition – Multiple-Element Arrangements, that limited the amount of revenue recognized at contract inception. In addition, the Standard requires the deferral and amortization of “incremental” costs incurred to obtain a contract. The primary contract acquisition cost for the Company are sales commissions. Under current GAAP, the Company expenses sales commissions as incurred while under the Standard such costs will be classified as a contract asset and amortized over a period that approximates the timing of revenue recognition on the underlying contracts.

Upon initial application the company will record deferred revenues, assets and a cumulative effect to retained earnings in an immaterial amount on the opening balance sheet at January 1, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). The new guidance requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. ASU 2016-02 also will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018 including interim periods within those fiscal years, but early adoption is permitted. The ASU requires a modified retrospective transition approach and provides certain optional transition relief. The Company is currently evaluating when it will adopt this new standard and the expected impact on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). This new standard clarifies certain aspects of the statement of cash flows, including the classification of debt prepayment or debt extinguishment costs or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees and beneficial interests in securitization transactions. This new standard also clarifies that an entity should determine each separately identifiable source of use within the cash receipts and payments on the basis of the nature of the underlying cash flows. In situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item. ASU 2016-15 will generally be applied retrospectively and is effective for annual periods beginning after December 15, 2017. The Company does not expect that this new guidance will have a material impact on its consolidated financial statements.



In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for the Company in the first quarter of 2018 and early adoption is permitted. The Company does not expect that this new guidance will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment (“ASU 2017-04”). ASU 2017-04 eliminates Step 2 of the goodwill impairment test, which requires the calculation of the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity will compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating the expected impact of the standard on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which expands the activities that qualify for hedge accounting and simplifies the rules for reporting hedging transactions. The standard is effective for the Company beginning January 1, 2019. Early adoption is permitted. The Company does not expect that this new guidance will have a material impact on its consolidated financial statements.

***Analysis of our Operation Results for the Year ended December 31, 2017 as compared to the Year ended December 31, 2016***

Our operation results presented herein with respect to the year ended December 31, 2016, were adjusted to reflect the Shagrir Spin-off.

***Revenues.*** Revenues increased by \$13.8 million, or 21%, from \$64.4 million in 2016 to \$78.2 million in 2017.

The revenues from the sale of our products increased by \$3.4 million, or 15%, from \$22.8 million in 2016 to \$26.2 million in 2017. This increase was primarily attributable to the increase of the quantity of Cellocator products sold during 2017. This increase was partially affected by the continued price erosion of Cellocator products.



The revenues from sales of our services increased by \$10.4 million, or 25%, from \$41.6 million in 2016 to \$52 million in 2017. This increase was primarily attributable to an increase of 16% of our MRM subscribers base, the acquisition of Cielo which is relatively selling in higher margins, and a positive effect of the appreciation of these local currencies against the USD, as a result revenues from services in U.S. dollars increased more than the increase in revenues in local currencies in the countries where our subsidiaries operate.

Revenues from our MRM services in 2017 accounted for 80% of our total revenues, an increase of 3% compared to 2016.

Our international revenues in 2017 were \$42.9 million, which constituted approximately 55% of total revenues compared to \$34.9 million, which constituted approximately 54% of total revenues in 2016. The increase in the international sales revenues was primarily attributable to an increase in our MRM subscriber base and an increase in the quantity of the Cellocator products sold. Sales to Latin America increased from \$20.1 million in 2016 to \$28.5 million in 2017; sales to Europe decreased from \$4.5 million in 2016 to \$4.4 in 2017; and sales to other countries were \$10.1 million in 2017 compared to \$10.3 million in 2016.

**Cost of Revenues.** Our cost of product revenues increased by \$2.2 million to \$16.1 million for the twelve months ended December 31, 2017 as compared to \$13.9 million for the same period in 2016. This increase was associated with an increase in revenues from the Cellocator products and from the products sold by Cielo.

Our cost of revenues from Services increased by \$3.2 million to \$21.9 million for the twelve months ended December 31, 2017 as compared to \$18.7 million for the same period in 2016.

**Gross Profit.** Our gross profit increased by \$8.4 million from \$31.8 million in 2016 to \$40.2 million in 2017. As a percentage of total revenues, gross profit accounted for 51.4% in 2017 compared to 49.4% in 2016. Our gross margin on the Cellocator product sales in 2017 was 38.6% compared to 39.0% in 2016. Gross margin on services was 57.8% in 2017 compared to 55.1% in 2016. The increase in gross profit resulted from an increase in revenues as well as from operational efficiencies.

**Research and Development Costs.** Research and development expenses were \$4.1 million in 2017 compared to \$3.7 million in 2016. This increase was associated with Cellocator increasing efforts in the development of its high end solutions in accordance with its strategy.

***Selling and Marketing Expenses.*** Selling and marketing costs were \$14.0 million in 2017 compared to \$11.8 million in 2016. This increase was associated with a increase of our sales efforts in each territory where we operate and Cielo acquisition in Brazil.

***General and Administrative Expenses.*** General and administrative expenses increased by \$2.3 million to \$11.3 million in 2017 from \$9 million in 2016. This increase is attributable mainly to our Cielo acquisition in Brazil.

**One Time Acquisition Related Costs.** One Time Acquisition related Costs amounted to \$0.03 million. This cost was associated with the acquisition of Neo-Trac South Africa Proprietary Limited and T-Trac SA Proprietary Limited's activities.

**Amortization of Intangible Assets.** Amortization of intangible assets in 2017 amounted to \$0.5 million, similar to the amortization of intangible assets in 2016.

**Impairment of Intangible and Tangible Assets.** There was no impairment of intangible and tangible assets in 2017 and 2016.

**Operating Profit.** As a result of the foregoing, we recorded an operating income of \$10.3 million in 2017, compared to an operating income of \$6.2 million in 2016.

**Financial Expenses (Net).** Financial expenses in 2017 amounted to \$1 million, similar to the financial expenses in 2016.

**Taxes on Income.** Taxes on income were \$7.2 million income in 2017 compared to \$1.8 million expenses in 2016. In 2017, we realized a deferred tax asset of \$9.2 million, mainly with respect to our carryforward loss, which was recorded following our determination that it is more likely than not to be offset against future income.

**Net Income from Discontinued Operations, Net.** No Net income from discontinued operations was recorded in 2017. We recorded net income from discontinued operations in the amount of \$0.2 million in 2016

**Net Income.** In 2017, we recorded a net income of \$16.5 million, compared to a net income of \$3.5 million in 2016.

**Net Income attributable to non-controlling interests.** We recorded net income attributable to non-controlling interests in the amount of \$3 thousands in 2017, compared to net income of \$24 thousands in 2016.

***Analysis of our Operation Results for the Year ended December 31, 2016 as compared to the Year ended December 31, 2015***

All of our operation results presented herein were adjusted to reflect the Shagrir Spin-off.

**Revenues.** Revenues increased by \$3.8 million, or 6.3%, from \$60.6 million in 2015 to \$64.4 million in 2016.

The revenues from the sale of our products increased by \$0.5 million, or 2%, from \$22.3 million in 2015 to \$22.8 million in 2016. This increase was primarily attributable to the increase of the quantity of Cellocator products sold during 2016. This increase was partially affected by the continued price erosion of Cellocator products which affected both the Cellocator products and services that were bundled with Cellocator products.

The revenues from sales of our services increased by \$3.3 million, or 8.5%, from \$38.3 million in 2015 to \$41.6 million in 2016. We increased the number of subscribers and sales in local currencies in the territories where we operate. This increase was negatively affected by the devaluation of these local currencies against the USD, as a result revenues from services in U.S. dollars increased less than the increase in revenues in local currencies in the countries where our subsidiaries operate.

Revenues from our MRM services in 2016 accounted for 77% of our total revenues, a decrease of 2% compared to 2015.

Our international revenues in 2016 were \$35 million, which constituted approximately 54% of total revenues compared to \$34.1 million, which constituted approximately 56% of total revenues in 2015. The decrease in international sales rate while the total international revenues increased was primarily attributable to a higher increase in the sales of MRM services in Israel in 2016. Sales to Latin America increased from \$19.4 million in 2015 to \$20.2 million in 2016; sales to Europe decreased from \$5.3 million in 2015 to \$4.5 in 2016; and sales to other countries were \$10.3 million in 2016 compared to \$9.4 million in 2015.

**Cost of Revenues.** Our cost of product revenues increased by \$0.5 million to \$13.9 million for the twelve months ended December 31, 2016 as compared to \$13.4 million for the same period in 2015. This increase was associated with an increase in revenues from the Cellocator products.

Our cost of revenues from Services increased by \$0.8 million to \$18.7 million for the twelve months ended December 31, 2016 as compared to \$17.9 million for the same period in 2015.

**Gross Profit.** Our gross profit increased by \$2.5 million from \$29.3 million in 2015 to \$31.8 million in 2016. As a percentage of total revenues, gross profit accounted for 49.4% in 2016 compared to 48.3% in 2015. Our gross margin on the Cellocator product sales in 2016 was 39% compared to 39.7% in 2015. Gross margin on services was 55.1% in 2016 compared to 53.3% in 2015. The increase in gross profit resulted from an increase in revenues as well as from operational efficiencies.

**Research and Development Costs.** Research and development expenses were \$3.7 million in 2016 as compared to \$3.4 million in 2015. This increase was associated with Cellocator increasing efforts in the development of its software application.

***Selling and Marketing Expenses.*** Selling and marketing costs were \$11.8 million in 2016 as compared to \$10.5 million in 2015. This increase was associated with a slight increase of our sales efforts in each territory where we operate.

***General and Administrative Expenses.*** General and administrative expenses increased by \$0.4 million to \$9 million in 2016 from \$8.6 million in 2015.

***One Time Acquisition Related Costs.*** One Time Acquisition related Costs amounted to \$0.6 million. This cost was associated with the acquisition of Cielo.

**Amortization of Intangible Assets.** Amortization of intangible assets were \$0.5 million same as in 2015. The expense in 2016 includes an increase due to the amortization of intangible assets from the acquisition of Cielo partially offset by a decrease in the amortization of intangible assets in Cellocator and Brazil which already fully amortized by December 31, 2016.

**Impairment of Intangible and Tangible Assets.** There was no impairment of intangible and tangible assets in 2016. In 2015 we recorded an impairment of intangible assets and goodwill of \$0.9 as a result of an impairment test to our Brazilian investment, which was affected by the macro economic situation in Brazil.

**Operating Profit.** As a result of the foregoing, we recorded in 2016 an operating income of \$6.2 million, compared to an operating income of \$5.3 million in 2015.

**Financial Expenses (Net).** Financial expenses increased from \$0.7 million in 2015 to \$1 million in 2016. This increase was primarily attributed to an increase in interest expenses associated with an increase in our long term loans from bank and a decrease in income from foreign currencies exchange rate differences.

**Taxes on Income.** Taxes on income were \$1.8 million expenses in 2016 compared to \$1.1 million expenses in 2015. In 2016 we recorded tax expenses related to the income generated in 2016 as well as to the decrease in the corporate tax rate in Israel. These expenses were offset against the deferred tax asset that was recorded in 2014, following the Shagrir Spin-off.

**Net Income from Discontinued Operations, Net.** We recorded net income from discontinued operations in the amount of \$0.2 million in 2016, compared to net income of \$0.3 million in 2015.

**Net Income.** In 2016, we recorded a net income of \$3.5 million, compared to a net income of \$3.8 million in 2015.

**Net Income (Loss) attributable to non-controlling interests.** We recorded net income attributable to non-controlling interests in the amount of \$24 thousands in 2016, compared to net loss of \$(75) thousands in 2015.

**Selected segment financial data:**

The financial data presented herein with respect to the year ended December 31, 2016, was adjusted to reflect the Shagrir Spin-off.

Commencing January 2008, the Company had two reportable segments: the Cellocator segment and the MRM segment.

Commencing December 2014, following the reorganization in Shagrir, and until the completion of the Shagrir Spin-off, the Company had three reportable segments: the Cellocator segment, the MRM segment and the RSA segment. Segment reporting was retroactively adjusted to reflect those segments.

Commencing June 2016, following the Shagrir Spin-off, the Company has reverted to two reportable segments: the Cellocator segment and the MRM segment. Segment reporting was retroactively adjusted to reflect those segments.

The Company applies ASC 280, "Segment Reporting Disclosure." The Company evaluates performance and allocates resources based on operating profit or loss. 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.

	2017	2016	2015
Cellocator segment revenues	24,364	22,707	19,489
MRM segment revenues	62,208	49,620	47,938
Intersegment adjustment	(8,417 )	(7,974 )	(6,860 )
Total revenue	78,155	64,353	60,567
Cellocator segment operating profit	2,742	1,660	1,000
MRM segment operating profit	7,569	4,708	3,848
Inter-segments adjustment	(2 )	(120 )	493
Total operating profit from continued operations	10,309	6,248	5,341

**Revenues.** Revenues of the MRM segment increased in 2017 by \$12.6 million to \$62.2 million from \$49.6 million in 2016. MRM segment revenues derive from services and the sale of products relating to those services provided by the MRM segment. A portion of these products is obtained from our Cellocator segment and the rest is obtained from third parties. The increase is primarily attributable to sales of products that are sold bundled with services, and the acquisition of Cielo in Brazil.

Revenues of the Cellocator segment in 2017 were \$24.4 million, compared to \$22.7 million in 2016. The increase of \$1.7 million or 7% in the revenues was primarily attributable to the increase of the quantity of Cellocator products sold during 2017. This increase was partially affected by the continued price erosion of Cellocator products. In 2017, Cellocator inter-segment revenues from products increased by 6% due to an increase in the installing base of the MRM operation.

**Operating profit.** Operating profit of the MRM segment in 2017 was \$7.6 million, compared to \$4.7 million in 2016.

The operating income of the Cellocator segment in 2017 was \$2.7 million, compared to an operating profit of \$1.7 million in 2016. The increase is primarily attributable to the increase in revenues from Cellocator products in 2017.

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

Our results of operations, liabilities and assets were impacted by the fluctuations of exchange rates between the U.S. Dollar and the NIS, and to a lesser extent between the U.S. Dollar and the Brazilian Real, the Argentine Peso, the Mexican Peso, the Euro and the South African Rand. For a discussion regarding the functional and reporting currency of each of our subsidiaries see Note 2b of our consolidated financial statements.

Our business in Israel currently accounts for the majority of our MRM business and revenues. The business in Israel, the MRM services and activities, are 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.

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 negatively impact 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 2017, and through February 28, 2018, the exchange rate fluctuated from a high of NIS 3.86 to the U.S. Dollar to a low of NIS 3.388 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	<u>LOW</u>	<u>HIGH</u>
	1 U.S. Dollar =	1 U.S. Dollar =
September 2017	3.504	3.584
October 2017	3.491	3.542
November 2017	3.499	3.544
December 2017	3.467	3.550
January 2018	3.388	3.460

February 2018      3.427              3.535

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:

Period	Exchange Rate NIS/\$1	Devaluation/ (Revaluation)	
January 1, 2013 – December 31, 2013	3.6108	(6.4	)%
January 1, 2014 – December 31, 2014	3.5779	(0.01	)%
January 1, 2015 – December 31, 2015	3.8839	8.5	%
January 1, 2016 – December 31, 2016	3.8324	(1.4	)%
January 1, 2017- December 31, 2017	3.5755	(6.7	)%

Period	CPI	Yearly Increase/ (Decrease)	
December 31, 2013	102.3	1.8	%
December 31, 2014	102.1	(0.2	)%
December 31, 2015	101.1	(1.0	)%
December 31, 2016	100.9	(0.2	)%
December 31, 2017	101.3	0.4	%

In 2013, the Israeli economy recorded positive inflation of approximately 1.8%, where the NIS revalued against the U.S. Dollar by approximately 6.4%. In 2014, the Israeli economy recorded negative inflation of approximately 0.2%, where the NIS revalued against the U.S. Dollar by approximately 0.1%. As a result of the devaluation of the NIS, we experienced a decrease in the revenues and in the costs of our Israel operations, as expressed in U.S. Dollars. In 2015, the Israeli economy recorded negative inflation of approximately 1%, and NIS revaluated against the U.S. Dollar by approximately 8.5%. As a result of the devaluation of the NIS, we experienced a decrease in the revenues and in the costs of our Israel operations, as expressed in U.S. Dollars, in 2015. In 2016, the Israeli economy recorded negative inflation of approximately 0.2%, and the NIS devalued against the U.S. Dollar by approximately 1.4%. In 2017, the Israeli economy recorded positive inflation of approximately 0.4%, and the NIS revalued against the U.S. Dollar by approximately 6.7%

Regarding our operations in Brazil and the fact that Pointer Brazil's revenues are not denominated in U.S. Dollars, we believe that inflation in Brazil and fluctuations in the exchange rate between U.S. Dollar and Brazilian Real may have a significant effect on the business and overall profitability of Pointer Brazil and as a consequence, on the results of our operations.

Period	<b><u>Exchange Rate</u></b>	Yearly	
	<b><u>BRL/\$1</u></b>	Increase/ (Decrease)	
February 28, 2014	2.38	21	%
February 27, 2015	3.87	63	%
February 29, 2016	3.99	3	%
February 28, 2017	3.11	(22)	)%
February 28, 2018	3.23	4	%

Regarding our operations 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.

Period	<b><u>Exchange Rate</u></b>	Yearly	
	<b><u>ARG/\$1</u></b>	Increase	
February 28, 2014	7.785	55	%
February 27, 2015	8.720	12	%
February 29, 2016	15.505	78	%
February 28, 2017	15.471	-	%
February 28, 2018	20.179	30	%

Regarding our operations in Mexico and the fact that Pointer Mexico's revenues are not denominated in U.S. Dollars, we believe that inflation in Mexico and fluctuations in the exchange rate between U.S. Dollar and Mexican Peso may have a significant effect on the business and overall profitability of Pointer Mexico and as a consequence, on the results of our operations.

Period	<b><u>Exchange Rate</u></b>	Yearly	
	<b><u>MXN/\$1</u></b>	Increase/ (Decrease)	
February 28, 2014	13.307	4	%
February 27, 2015	14.962	12	%
February 29, 2016	18.268	22	%

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February 28, 2017	19.832	9	%
February 28, 2018	18.817	(5	)%

The fluctuations of each of the Euro, the Indian Rupee and South African Rand are not material to our business. Devaluation of two or more of these currencies against the USD simultaneously, may have a material adverse effect on our business.

We may engage 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 2017, 2016, 2015 and 2014 there were no foreign currency hedging transactions. We may in the future undertake such transactions if management determines that such is necessary to offset the abovementioned risks. See Item 11- Quantitative and Qualitative Disclosures About Market Risk for further details about our hedging activities.

### ***Governmental and Fiscal Policies which May Affect Our Business***

The market for vehicle leasing in Israel has grown in recent years. 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 amended and apply to cars provided to and leased by employees on end of January 1, 2010. Whereas under the formal rules, fixed amounts of taxable income were assigned to various categories of vehicles, these regulations determine the imputed taxable income according to a certain percentage of the purchase price of the car. With respect to most of the car models, these regulations result in a high amount of imputed income to the employees, as compared to the previous rules. This result and other new regulations may adversely affect the overall demand for vehicles. The amounts of taxable income that were assigned may rise from time to time in accordance with government resolution.

Argentina's ongoing debt crisis since 2001 has caused the government to implement fiscal and monetary policies which restricted the importation of goods and services, governance control of foreign currency transactions, 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. In 2015, the volatility in the local and global financial system had a negative impact on the Argentine economy, and could continue to adversely affect the conditions in the country in the foreseeable future. In 2015, the opposition party was elected in the Argentinean national elections, which further contributed to the social and economic unrest, and which led to a significant devaluation of the Peso relative to the U.S. Dollar. In 2016, there was insignificant devaluation of the Peso relative to the U.S. Dollar. In 2017, there was a 17% devaluation of the Peso relative to the U.S. Dollar.

## B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2017, we had a positive working capital of \$9.3 million, our current assets to current liabilities ratio was 144% and we had cash and cash equivalents of \$7.4 million and an unused credit facility of \$11 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.

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 ("OCS"), known today as the Israel Innovation Authority ("IIA"), the BIRD Foundation, the European Community and cash flow from operations. We no longer receive grants from the OCS or the IIA in Israel, the BIRD Foundation or the European Community. In addition, we do not anticipate selling the products developed using the BIRD Foundation funds (which sales would require us to pay contingent royalties to the foundation) and therefore, do not anticipate paying these contingent royalties.

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 foreign investors, the latest of which we consummated in March 2014.

In December 2012, we received a dividend from Shagrir Systems in the amount of \$1.45 million. In January 2014, we received a dividend from Shagrir Systems in the amount of \$1.5 million.

As of December 31, 2017, we had loans under long-term credit facilities (including current maturities) in the aggregate amount of approximately \$10.1 million. The credit facilities provided to us and to our subsidiary Pointer Brazil by Israelis and Brazilian banks and other sources. \$6 million was provided to Pointer to finance part of the Pointer Brazil acquisition, of which \$5.6 million remains outstanding as of December 31, 2017. Of this aggregate amount, approximately \$9.9 million are long-term loans in, or linked to, the U.S. Dollar from banks and \$0.2 million are long-term loans denominated in Brazilian Real from Brazilian banks. All the loans, credit facilities and bank guarantees provided to Shagrir Systems were assigned to Pointer as of December 31, 2014. In addition, as of December 31, 2017, we have unutilized credit facilities of approximately \$11 million from Bank Hapoalim, Israel Discount Bank Ltd. ("**Bank Discount**") and HSBC.

In March 2014, Pointer sold ordinary shares in a private placement to certain leading institutional companies in Israel in reliance on Regulation S under the U.S. Securities Act of 1933, as amended. In total, Pointer sold approximately 1.13 million ordinary shares at \$9.25 per share for aggregate consideration of approximately \$10.44 million. The funds raised in the offering were used to reduce outstanding bank credit facilities, for the acquisition of our South African subsidiary and for future potential acquisitions.

In July 2015, Pointer sold its 17,141 ordinary shares of Car2Go, representing 62.31% of the issued and outstanding share capital of Car2Go, to the Shagrir Group in consideration for NIS 17,141 (the par value of such shares). In addition, as part of this transaction Pointer sold to the Shagrir Group its shareholders loans (principal amount and accrued interest) provided to Car2Go in the total amount of approximately NIS 11.35 million and the Shagrir Group assumed Pointer's guarantee provided to secure Car2Go's credit line in the amount of approximately NIS 1.3 million.

For further information regarding our consolidated long-term loans, loan maturity and interest rate structure; see Notes 8 and 10 to our consolidated financial statements.

In January 2009, we received credit facilities of \$1 million from Israel Discount Bank B.M. to finance our working capital. As of December 31, 2017, \$1 million of the credit facility is available for use.

Our aggregate credit facilities from Bank Hapoalim B.M. total \$5 million. As of December 31, 2017, the full credit facility is available for use.

In 2017, net cash provided by our operating activities amounted to \$9.7 million as compared to net cash provided from continuing operating activities of \$9.1 million in 2016.

In 2017, net cash used in our investing activities was \$3.2 million as compared to \$12.1 million in 2016. On October 7, 2016, we completed the acquisition of Cielo through Pointer Brazil.

In 2017, net cash used in our financing activities was \$4.7 million as compared to \$0.2 million provided by our financing activities in 2016. The decrease is mainly attributed to receipt of long-term loans from banks in 2016 used for financing the acquisition of Cielo in Brazil.

Current liabilities increased from \$19.8 million in 2016 to \$21.2 million as of December 31, 2017, mainly due to an increase in current maturities of long-term loans from banks and the increase of our working capital. Long-term liabilities decrease from \$14.4 million in December 31, 2016 to \$9.8 million as of December 31, 2017 mainly due to repayment of long term loans.

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 until December 31, 2018. However, we cannot assure 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 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 and regions in which we operate.

For a discussion of certain commitments and contingent liabilities, see Note 12 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 \$3.0 million in 2017 and \$4.2 million in 2016. In both years, capital expenditures were used mainly for purchasing property and equipment.

We estimate that our total capital expenditures for 2018 will be approximately \$4.9 million, substantially all of which will relate to fixed assets that serve mobile resource management business as well as our pursuit of new business opportunities, of which approximately 16% is estimated to be spent in Israel, 13% in South Africa and 71% in Latin America. We will also need to continue to provide our cash negative subsidiaries with financing until they have sufficient cash flows to run their operations.

### C. RESEARCH AND DEVELOPMENT

We invest a significant amount of our resources on our internal research and development operations for our Cellocator and MRM segments. 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 and product management department in order to implement suggestions and requests received from our customers; and

(iii) Investing in improvements to our production methods and provision of services in our operations department.

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 continue to improve our products including our Pointerware network, the software platform used by our MRM and Cellocator segments for applications and for the provision of services to their customers. Our net expenditures for research and development programs during the years ended December 31, 2017 and December 31, 2016, totaled approximately \$4.1 million and \$3.7 million, respectively. We expect that we will continue to commit substantial resources to research and development in the future. As of December 2017, we employed 33 persons in research and development. For additional information concerning commitments for research development programs, see Note 12 of our consolidated financial statements.

The Government of Israel encourages research and development projects oriented towards products for export through the OCS, or through the IIA, established in 2016, following the implementation of the R&D Amendment.

Under the terms of Israeli Government participation, a royalty of 3% or up to 5% of the net sales of products developed from a project funded by the OCS must be paid in accordance with the terms of the pre-R&D Amendment regime, beginning with the commencement of sales of products developed with grant funds and ending when a dollar-linked amount equal to 100% of such grants plus interest at LIBOR is repaid. The terms of Israeli Government participation also impose significant restrictions on manufacturing of products developed with government grants outside Israel, in accordance with the terms and conditions of the pre-R&D Amendment regime. In addition, according to the pre-R&D Amendment regime the transfer to third parties of technologies developed through such projects is subject to approval of the OCS.

On July 29, 2015, the Israeli Parliament, the Knesset, enacted the R&D Amendment, designated to provide the ability to respond quickly to the challenges of a changing world, after reaching the conclusion that the pre-R&D Amendment regime was found not to have the required flexibility in today's rapidly changing world. Pursuant to the R&D Amendment, the OCS was replaced with the newly established IIA, comprised of a Council body, the Chief Scientist, the Director General and a member of the Research Committee. According to the R&D Amendment, the Council has broad discretion regarding material matters, including with respect to the new funding programs ("**Tracks**"), certain characteristics, including the type of Benefit (as defined under the R&D Amendment to include grants, loans, exemptions, discounts, guarantees and additional means of assistance, but with the exclusion of purchase of shares) to be granted as well as its scope, conditions for receipt of approval for the Benefit and the identity of the party which is permitted to perform the approved activities. The Council may also determine additional matters, including delay in payment of the Benefit and requests for provision of guarantees for its receipt, payment of an advance by the IIA, what know-how will be developed and requirements regarding its full or partial ownership, provisions regarding transfer, disclosure or exposure of know-how to third parties in Israel and abroad (including payment or non-payment for the same, as well as ceilings for such payments), requirements with respect to manufacture in Israel and transfer of manufacture abroad (including payment for such transfer), performance of innovative activities for the benefit of third parties, etc. In addition, while the pre-R&D Amendment regime provided base-line default terms and conditions with respect to the core issues relevant for OCS grant recipients, as provided above, these default provisions were largely rescinded by the R&D Amendment. Many of these matters are now decided separately for each Track by the Council, based on certain guidelines stipulated in the R&D Amendment. Such guidelines provide, for example, that considerable preference should be given to having ownership of IIA-funded know-how and rights vest with the Benefit recipient and/or with an Israeli company, with transfer of know-how and related rights abroad to be permitted only in exceptional circumstances. In addition, the R&D Amendment determines that the transfer of manufacturing rights abroad, whether under a license or otherwise, shall only be allowed in special circumstances.

The IIA has recently published a directive incorporating most of the former provisions, including those with respect to transfer of manufacturing rights, transfer of know-how and others. These provisions include limitations and requirements for payment with respect to outsourcing or transferring development or manufacturing activities with respect to any product or technology outside of Israel, and change in control in companies with received government funding from the OCS or IIA.

In addition, on May 7, 2017, the IIA published the Rules for Granting Authorization for Use of Know-How Outside of Israel (the “**Licensing Rules**”). The Licensing Rules enable the approval of out-licensing arrangements and other arrangements for granting of an authorization to an entity outside of Israel to use know-how developed under research and development programs funded by the IIA. Subject to payment of a “License Fee” to the IIA, at a rate that will be determined by the IIA in accordance with the Licensing Rules, the IIA may now approve arrangements for the license of know-how outside of Israel. This allows companies that have received IIA support to commercialize know-how in a manner which was not previously available. In addition, the IIA has recently published a directive incorporating most of the former provisions, including those with respect to transfer of manufacturing rights, transfer of know-how and others. For additional information see Item 9 – The Offer and the Listing – Taxation and Government Programs.

We hold various United States patents relating to the use of Pointerware communications technology for various aspects of reverse paging and mobile location. The patents are not material to our core business. 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.

However, there can be no assurance that such patent applications will actually afford protection against competitors with similar technology. In addition, we cannot provide assurance that the patents issued to us will not be infringed, designed around by others or invalidated. Furthermore, our competitors may independently develop or patent technologies that are substantially equivalent or superior to our technology or duplicate our technologies. Additionally, measures like entering into non-disclosure agreements afford only limited protection. 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 issued, and because publication of discoveries in the scientific or patent literature tend 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, with regards 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. 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.

#### **MRM Segment**

During the past decade, our MRM services have progressed from the provision of relatively simple vehicle track and trace functionality (determining the vehicle's location and departure point) to the provision of sophisticated solutions in which software and hardware bundled together to create an integrated actionable information gathering system with analytics that can be used in both markets, fleet management and asset and cargo management, and which includes amongst other things:

#### Fleet Management

(i) Monitor and analyze vehicle sensor inputs to determine, for example, status of engine, doors, brakes, transmission as well as driver's vehicle operation profile – all intended to better schedule preventive maintenance and assist in

achieving safer driving by alerting reckless driving, based on predetermined parameters;

- (ii) Analyze driving patterns, including determining acceleration, harsh braking, side turns or cornering, as well as driver's hours of service and rest time;
- (iii) Analyze and monitor activity efficiency over time and space, plan better the way resources (human and vehicles) are utilized and maintained.

Asset and Cargo Management

- (i) Trace various movable and or moving assets including cargo, field equipment, field services teams, agriculture and construction equipment, which often do not have an onboard power supply.  
Monitor and analyze cargo and cold chain shipments using our heco system, CelloTrack Nano which is
- (ii) communicating through its BLE capabilities with our Multisense sensor to determine, among others, temperature, humidity, position, barometric pressure and cargo falling in order to allow real time visibility, security and increasing efficiency.

Due to increased competition amongst competing service providers, there is growing demand from our customers for increasingly advanced functionality to be incorporated in our fleet and asset management web-based applications. The demanded functionality includes having the ability to generate report dashboards (Business Intelligence) and alerts to specifically meet individual fleets manager's operational requirements, as well connectivity of these applications to their ERP systems required for better combined financial and resource planning in order to enhance efficiencies.

Such continuing demand for higher-end often specifically customized services by fleet managers requires a continued investment in the development of our fleet and asset management web-based and mobile applications, both as part of our ongoing services provided to existing customers and to continuously provide cutting-edge efficient and advanced services to win and attract new customers. Larger customers across all regions base their choice of service provider on whether a provider can offer the full range of capabilities and services, which adequately meet or exceed their needs. Furthermore, agreements with our customers generally span a period of several years and in order to increase the chance of customer agreement renewals, we are committed to providing consistent market leading services to ensure total customer satisfaction at all times. This means exceeding customer expectations, for example, as part of our fleet management application, we offer a specialized solution for tasks and workflow management to enable close monitoring of vehicles' assigned tasks, including comparing the utilized routes against planned routes, time of arrival assessment, integration with third party dispatching systems and advanced real time alerts and activity reports engine, all tuned to help our partners better achieve their on-time delivery targets and optimize their asset utilization Key Performance Indicators.

In order to provide our customers with advanced services that are being demanded we may from time-to-time purchase both products manufactured by our Cellocator segment and other less material accessories and components from third parties, and subsequently sell such products to customers as part of our bundled service packages under the Pointer brand.

The MRM market for our services has a stable outlook of growth for both fleet management and asset management (i.e. containers and hazardous materials).

## Cellocator Segment

In 2006, we introduced to the mobile resource management market third party Cellular Monitoring Units which, utilizing advanced cellular modems with GPS technology, provide the required functionality for fleet management and vehicle security services. Following our acquisition of Cellocator in 2007, we began manufacturing, among other things, our own units through our Cellocator segment and therefore, we have since no longer depended on third parties for the manufacture and provision of our units. These units are sold to a wide number of customers worldwide and are sold either as stand-alone solutions, or as part of bundled solutions together with our MRM services, depending on customer demand. These units enable us to provide versatile information as well as nationwide coverage utilizing the cellular network in each territory and are specially designed to operate in harsh conditions inside a vehicle. Cellocator unit designs take into consideration the unique vehicular and asset environment that surrounds the unit i.e. the temperature and vibration stress to which it is exposed, the limited and sometimes unstable power supply found in cars generally and specific installation requirements pertaining to the variety of different cars in the fleet management and stolen vehicle recovery markets in which the units are installed. In addition, specially built units are capable of being installed in other MRM verticals such as trailers and containers without an internal or onboard power supply and designs take into consideration severe outdoor conditions and ingress protection (IP67). SVR and fleet management applications have the ability to communicate with the device over cellular network (GPRS, HSPA) in order to receive messages and events as well as to update the device's software as required from time to time in favor of new features or other improvements. The design reflects the above requirements with a high degree of reliability and flexibility. Since 2008, we have introduced several new units aimed at our market as well as new vertical markets and have incorporated new functionality such as driver behavior, vehicle remote diagnostics, asset management, cargo security, and car sharing amongst others. The expansion of the unit portfolio and functionality serves as a means for Cellocator's future growth and allows for an increase in our customer base overall.

We have identified three main trends in the Telematics device market during 2017 as follows:

- (i) Ongoing price reduction globally due to increasing competition as well as economic weakness;
- (ii) A growing demand for advanced technology that monitors driver behavior and provides safety and remote diagnostics applications; and
- (iii) An increase in vehicle manufacturers' involvement in the car connectivity market.
- (iv) A growing demand for advanced technology that supports real-time monitoring for the Cargo delivery, transportation and logistics market.

In order to address these types of trends, since 2011 our Cellocator segment introduced new products aimed at the low cost segment and the driver behavior safety market. Moreover, in 2012 Cellocator increased its efforts to introduce lower cost products in its existing portfolio, in order to improve the Company's ability to monitor drivers' behaviors, drivers' safety and to improve cost efficiency for fleet management. Throughout 2013 and 2014 our Cellocator segment has ramped up efforts to introduce technology that monitors driver behavior and provide safety and diagnostics applications as well as cargo monitoring solutions to expand our asset management product line. In 2015 Pointer launched a hybrid-communication standard throughout the main products of its product offering allowing radio frequency technology back-up by a proprietary RF beacon, intended for security events when cellular link is jammed or unavailable. In order to support market's demands, we have implemented certain cellular technologies such as GPRS, HSPA and narrow-band LTE standards in our devices.

In the end of 2015, Cellocator introduced a new innovative product for the Cargo delivery, transportation and logistics market. The CelloTrack Nano is equipped, on top of Cellocator's other technologies, with advanced short-range Wireless Sensors Network (WSN) using BLE technology allowing it to collect and monitor environmental conditions of the tracked assets.

We anticipate that the ongoing introduction of new Cellocator products, such as new solutions for vehicle remote diagnostics and lower cost devices for assets tracking, will increase Cellocator's competitive edge and therefore accelerate growth in the Telematics products market.

As a result of our operations through our Cellocator segment, we are expanding our global sales of current and new devices to both existing and new customers. As part of this approach we established our Indian subsidiary in July 2012 in order to penetrate the Indian market with our Cellocator segment portfolio of products. Prices of high feature devices (such as the products sold by our Cellocator segment) in the stolen vehicle retrieval market and fleet and asset management market, are continuously decreasing due to increased competition and the reduction in the cost of components. Events affecting the global vehicle industry have a significant bearing on the demand for our products. We continue to closely monitor events affecting this industry. However, we cannot at this point in time estimate their impact.

## E. OFF-BALANCE SHEET ARRANGEMENTS

The company has no off balance arrangements.

## F. CONTRACTUAL OBLIGATIONS

<b>Contractual Obligations through</b>		Less	1-3	3-5	More	
<b>December 31, 2017 (in thousands USD)</b>		than 1	Years	Years	than 5	Total
		Year			Year	
Short term debt and other current liabilities	1	21,146	-	-	-	21,146
Long-term debt obligations	2	-	5,015	-	-	5,015
Accrued severance pay	3	-	-	-	3,996	3,996
Management fees to DBSI	4	53	-	-	-	53
Operating lease obligations	5	2,367	2,623	-	-	4,990
Royalties to BIRD	6	-	-	-	2,444	2,444
Total contractual obligations		23,566	7,638	-	6,440	37,644

<sup>1</sup> Short term debt and other current liabilities include short term bank credits and current maturities of long term loans, trade accounts payable for equipment and services that have already been supplied, deferred revenues, customer advances and other accrued expenses.

<sup>2</sup> Long term loans include principal and interest payments in accordance with the terms of agreements with banks and other third parties. For further information please see Item 5.B. - Liquidity and Capital Resources.

<sup>3</sup> Accrued severance pay maturities depend on the date our employees actually cease being employed.

<sup>4</sup> We pay annual fees of \$180,000 in consideration for DBSI management services pursuant to an agreement with DBSI, effective as of August 1, 2017 until July 31, 2020 unless reapproved by the Company's shareholder.

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

<sup>6</sup> Royalties to BIRD foundation include the amount received by BIRD foundation indexed as per our agreement in which we undertook to pay them specified royalties based on sales of a specific product. The Company does not anticipate selling this product and therefore, does not anticipate paying these contingent royalties (See Note 12c to our Financial Statements).

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## A. DIRECTORS AND SENIOR MANAGEMENT

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

<b>Name</b>	<b>Age</b>	<b>Position with Company</b>
Yossi Ben Shalom	61	Chairman of the Board of Directors
David Mahlab	61	President and Chief Executive Officer
Gil Oren <sup>(1)</sup>	66	Former External Director
Zvi Rutenberg <sup>(1)</sup>	62	Former External Director
Arie Ben Yosef <sup>(2)</sup>	64	External Director
Ofer Wolf <sup>(2)</sup>	55	External Director
Barak Dotan	49	Director
Nir Cohen	45	Director
Jonathan Irroni <sup>(3)</sup>	68	Former Director
Yehudit Rozenberg	58	Director
Zvi Fried <sup>(4)</sup>	53	Former Chief Financial Officer
Yaniv Dorani <sup>(5)</sup>	41	Chief Financial Officer
David Markus <sup>(6)</sup>	44	Former Chief Technology Officer
Igor Rogov	43	VP R&D of the Cellocator Division
Joshua Rozanski	52	VP of Sales & Marketing
Eran Tibon	57	Chief Operational Officer
Ilan Goldstein	63	GM of Pointer Israel
Rami Peled	62	Chief Information Officer

- (1) Messrs. Gil Oren and Zvi Rutenberg completed their third term as Pointer's External Directors on May 2017.
- (2) Messrs. Arie Ben-Yosef and Ofer Wolf were appointed as external directors in June 2017.
- (3) Mr. Jonathan Irroni served as a director until June 16, 2017, when he stepped down from office.  
On March 30, 2017, we filed a Press Release on Form 6-K announcing that Mr. Yaniv Dorani, our then VP Finance of the Cellocator division and Pointer Israel, will replace Mr. Zvi Fried as our Chief Financial Officer,
- (4) following Mr. Fried's decision to leave the Company due to personal reasons. Mr. Dorani became our Chief Financial Officer effective April 1, 2017.
- (5) Mr. Dorani serves as our Chief Financial Officer effective April 1, 2017.
- (6) Mr. David Markus served as Chief Technology Officer until August 31, 2017, when he stepped down from office.

**Yossi Ben Shalom**, has served as Chairman of our Board of Directors since April 2003. Mr. Ben Shalom was Executive Vice President and Chief Financial Officer of Koor Industries Ltd. (KOR) from 1998 through 2000. Before that, Mr. Ben-Shalom served as Chief Financial Officer of Tadiran Ltd. Mr. Ben-Shalom was an active director in numerous boards, such as NICE Systems (NICE) (computer telephony), Makhteshim Agan (agro-tech) and Investec Bank. Mr. Ben Shalom currently serves as a director in Taldor Computer Systems Ltd. and Danel (Adir Yeoshua) Ltd. He is also the chairman of the board of Shagrir Group Vehicle Services Ltd., CAR2GO Ltd., Rada Electronic Industries Ltd and Matzman Et Merutz Milenum Ltd. He was the active Chairman of Scopus Ltd. and Cimatron Limited. Mr. Ben Shalom is a co-founder of D.B.S.I. Investments Ltd. ("**D.B.S.I.**"), a private investment company that has made various investments in private and public companies. Mr. Ben-Shalom holds a B.A. in Economics and M.A. in Business Management from Tel Aviv University.

**David Mahlab**, has served as our President and Chief Executive Officer since February 1, 2011. From 2009 until January 2011, Mr. Mahlab served as an independent business developer. Mr. Mahlab is the co-founder of Scopus Video Networks (a company formerly traded on the NASDAQ Market), and served as its Chief Executive Officer from 1995 until January 2007 and its chairman of the board from January 2007 until March 2009. Mr. Mahlab holds a BSc. and a MSc. in Electrical Engineering from the Technion-Israel Institute of Technology, an MBA from Tel Aviv University and LLB from Tel Aviv University.

**Gil Oren**, has served on our board as an external director from July 2008 until May 2017. Mr. Oren is an independent business advisor. During the years 2002-2007 Mr. Oren served as the Chief Executive Officer of Ytong Industries Ltd. During such years Mr. Oren also served on the Board of Directors of Ytong Industries Ltd., Nirlat Ltd., Aloni Conglomerate Ltd., Carmit Ltd., Orlite Industries Ltd. (in addition to serving as the Chief Executive Officer of such company), Orlite Millennium Ltd., Vulcan Casting Ltd., Urdan Industries Ltd. Mr. Oren holds a B.A in accounting and economics from Tel Aviv University and a M.B.A from Tel Aviv University. Mr. Oren is also Certified Public Accountant.

**Zvi Rutenberg**, has served on our board as an external director from July 2008 until May 2017. Mr. Rutenberg currently serves as the Chief Executive Officer of the industrial division of Minrav Ltd, where he has served since May 2010. In May 2008 Mr. Rutenberg established Global Point Ltd., a company that provides management consultancy services for industrial companies. Between May 1997 and May 2008, Mr. Rutenberg served as the Chief Executive Officer of Durabond Ltd., and from January 2004 until May 2008, he also served as the Chief Executive Officer of Durabond's sister company, Ashkalit Chemiproduct Ltd. Mr. Rutenberg holds a B.S. in Industrial and Management Engineering from Ben Gurion University.

**Arieh Ben-Yosef**, was appointed as an external director on our board in June 2017. Mr. Ben-Yosef is the Chief Executive Officer of Herd MOonitor Ltd., a start-up company engaged in precision agriculture (herd management systems), a position he holds since September 2016. Between 2014 and 2017, Mr. Ben-Yosef has also served as a director of Alcobra Ltd., a biopharmaceutical company traded on Nasdaq, and since 2010 as a director of Insuline Ltd., a public company engaged in medical devices, listed on the Tel Aviv Stock Exchange. Between 1998 and 2014 Mr. Ben-Yosef served as a director of Microwave Networks Inc., a US company in the field of telecom equipment. Between 2014 and January 2016, Mr. Ben-Yosef served as the Chief Executive Officer of Yazamtech Ltd., a start-up company engaged in cyber security. Between April 2011 and August 2012, Mr. Ben-Yosef served as the General Manager of Teledata Networks Ltd., a high-tech company. Mr. Ben-Yosef holds a M.B.A and B.A in Middle Eastern studies, both from Hebrew University, Jerusalem.

**Ofer Wolf**, was appointed an external director on our board in June 2017. Mr. Wolf is the Chief Executive Officer of EAS, logistics consulting company, a position he has held since 2014. Prior to that, Mr. Wolf served as the head of the Technology and Logistics Division of the Israeli Defense Forces, as Brigadier General. Mr. Wolf holds a B.Sc. in Mechanical Engineering from the Technion — Israel Institute of Technology, and an Executive M.B.A from Tel Aviv University.

**Barak Dotan**, was appointed a director on our board in April 2003. Mr. Dotan is a co-founder of D.B.S.I., a private investment company that invests in private and public companies. Mr. Dotan also serves as Chairman of the Board of Directors at Taldor Computer Systems (1986) Ltd. and Danel (Adir Yeoshua) Ltd. and as a director at B.R.Y.N. Investments Ltd., D.B.S.I., Hatav Hashmini Hachadash (2000) Ltd. and Hatav Hashmini Production & Distribution Ltd. Mr. Dotan graduated from the Hebrew University of Jerusalem summa cum laude with a B.Sc. in Computer Science and Business Management.

**Nir Cohen**, was appointed a director on our board in June 2012. Currently, Mr. Cohen serves as Chief Financial Officer of D.B.S.I. and Shiraz DS Investments Ltd. Mr. Cohen is also a director in the following publicly traded companies: Shagrir Group Vehicle Services Ltd., Taldor Computer Systems (1986) Ltd., Rada Electronic Industries Ltd. and Danel (Adir Yeoshua) Ltd. Mr. Cohen holds a B.A. in Accounting and Business Management from the College of Management, and he is a Certified Public Accountant in Israel.



**Jonathan Ironi**, was appointed a director on our board in December 2014 and served until June 16, 2017, when he stepped down from office. Currently, Jonathan Ironi serves as the Chief Executive Officer of Gandy Investments Ltd. He previously served as the Chief Executive Officer of Investec Bank Ltd. and as Managing Director and Chief Executive Officer of Ubank Ltd. (formerly Investec Bank (Israel) Limited), a subsidiary of Investec Group Limited and as chairman of the Board of Directors in the Bank of Jerusalem Ltd. Additionally, Mr. Ironi has been a Director of N.R. Spuntech Industries Ltd. since 2009 and serves as a director of the Bank of Jerusalem Ltd. He previously served as a director at Adgar Investments and Development Ltd. and Ubank Ltd. Mr. Ironi served as the chairman of the Credit Committee of Migdal Ltd. and currently serves as the chairman of the Investments and Credit Committee of Clal Insurance Company Ltd. Mr. Ironi holds a B.A in Economics from Hebrew University, Jerusalem.

**Yehudit Rozenberg**, was appointed a director on our board in January 2016. Since 2007, Ms. Rozenberg has served as the director of finance of Elbit Systems Ltd., an international defense company. Ms. Rozenberg also serves as the Chief Financial Officer of Elbit Systems - Elisra Division. From 2004 to 2009, Ms. Rozenberg served as an external director and a member of the Audit Committee of the Board of Directors of Taldor Group. Ms. Rozenberg holds a M.A. in law from Bar Ilan University, M.B.A (magna cum laude) from Tel-Aviv University and a B.A in Economics from Bar Ilan University.

**Zvi Fried**, was appointed our Chief Financial Officer in February 2007 and served until April 1, 2017, when he stepped down from office due to personal reasons and was replaced by Mr. Yaniv Dorani. Prior to his appointment Mr. Fried was Chief Financial Officer of Chim Nir (TASE: CMNR) and Finance Director for Amdocs (NASDAQ: DOX). Mr. Fried is a CPA and he holds a B.A. in Economics and a degree in Accounting from Bar Ilan University.

**Yaniv Dorani**, was appointed our Chief Financial Officer in April 2017. Prior to his appointment, Mr. Dorani joined Pointer in 2008. He has served as VP Finance of the Cellocator division and Pointer Israel from 2014, prior to which he served as the finance manager of the Cellocator division. Prior to joining Pointer, Mr. Dorani served as Corporate Controller at Medis Technologies and assistant controller at Delta Galil Industries. Before joining Delta Galil, Mr. Dorani was a senior auditor for accounting firm KPMG in Israel. Mr. Dorani has a B.A. in Economics and Accounting, CPA certification and a M.B.A. from Bar Ilan University in Tel Aviv.

**David Markus**, was our Chief Technology Officer. Mr. Markus joined us in 2000 and served until June 16, 2017, when he stepped down from office. Mr. Markus has served in a wide range of technological and management positions. Since the acquisition of Cellocator in 2008, Mr. Markus has built and managed Cellocator's R&D group as Cellocator VP R&D and has been responsible for our customer support and IT. Mr. Markus holds a B.Sc. in Electrical and Electronic Engineering from Tel Aviv University and a Master of Engineering in Systems Engineering from the Technion-Israel Institute of Technology.

**Igor Rogov**, is a VP R&D of the Cellocator Division. He has been managing the Cellocator R&D team since August 2012. Mr. Rogov first joined Cellocator in 2000, and since then has served in a wide range of technological positions. Since the acquisition of Cellocator in 2008, Mr. Rogov has served as a System Architect and head of System Engineering. Mr. Rogov holds a Bachelor degree in Electrical and Electronic Engineering from Ariel University Center and a Practical Engineering in Electronic Engineering from the Technion.

**Joshua Rozanski**, is a VP of the Sales and Marketing Division. He joined us in September 2014. Mr. Rozanski is responsible for the Sales, Marketing and Technical support teams as well as the subsidiaries in the US & India. Prior to joining Pointer, Mr. Rozanski held VP Worldwide Sales positions in TEOCO and in Packetlight Networks and prior to that served in various Sales, Marketing and BD positions in TTI Telecom and ECI Telecom. Mr. Rozanski holds a B.Sc in Electronics Engineering from the Jerusalem College of Technology and MBA from Bar Ilan University.

**Ilan Goldstein**, is the General Manager of Pointer Israel since 2005. Ilan has an MBA in Business Management from Manchester University, a BA in Economics from Tel Aviv University, and he is a graduate of the R'ealy Military Academy School in Haifa. Ilan has profound managerial experience from managing some of the leading organizations in the Israeli economy. He managed the stores of the Opticana, optic network, was the senior manager of all branches of Amisragas, was a manager in Baran, and managed Allied Motors, Seat cars importer, under Champion Motors. Ilan's military service in the IDF began in flight school, after which he finished officers' school in the Air Force, ultimately serving in various command operational positions, including flight test and control operations.

**Rami Peled**, has been with Pointer in Israel since its foundation in 1998. He fulfilled various positions, the last as VP IT of Shagrir Systems (Now Pointer Israel). Rami is a graduate of Tel Aviv University, and specializes in Organizational Systems including ERP, CRM & Billing at Operation Companies such as the Cable Television Industry which Rami has been one of its CIO pioneers.

## B. COMPENSATION

The aggregate direct remuneration paid to all persons as a group who served in the capacity of director or executive officer during the year ended December 31, 2017, was approximately \$3.5 million, including amounts expended by us for automobiles made available to our officers, expenses reimbursed to officers (including professional and business association dues and expenses), other fringe benefits commonly reimbursed or paid by companies in Israel and amounts set aside or accrued to provide pension, retirement or similar benefits.

The table below reflects the compensation granted to our five most highly compensated officers during or with respect to the year ended December 31, 2017. All amounts reported in the table reflect the cost to the Company, as recognized in our financial statements for the year ended December 31, 2017.



<b>Name and Position</b>	<b>Salary</b>	<b>Social Benefits<sup>(1)</sup></b>	<b>Bonuses</b>	<b>Value of Options Granted<sup>(2)</sup></b>	<b>All Other Compensation<sup>(3)</sup></b>	<b>Total</b>
	<b>(in U.S. dollars)</b>					
David Mahlab - President and CEO	291,736	64,088	278,590	180,523	58,690	873,627
Ilan Goldstein - GM of Pointer Israel	201,681	44,641	185,932	44,948	45,935	523,137
Yaniv Dorani - Chief Financial Officer	142,379	25,639	55,718	48,626	26,348	298,710
Joshua Rozanski - VP of Sales and Marketing	146,864	25,570	71,664	2,997	20,803	267,898
Eran Tibon - Chief Operation Officer	145,403	25,371	40,791	20,309	21,485	253,359

(1) “Social Benefits” include payments to the National Insurance Institute, advanced education funds, managers’ insurance and pension funds; vacation pay; and recuperation pay as mandated by Israeli law.

(2) Consists of amounts recognized as share-based compensation expense on the Company’s statement of comprehensive loss for the year ended December 31, 2017.

(3) “All Other Compensation” includes automobile-related expenses pursuant to the Company’s automobile leasing program, telephone, basic health insurance and holiday presents.

### *Options*

In December 2013, the Company adopted an Employee Share Option Plan (2013) (the “**2013 Plan**”). The Board of Directors of the Company approved an aggregate amount of 376,712 of shares reserved under the 2013 Plan. To date, the options and RSU’s granted under the 2013 Plan were granted in accordance with Section 102 to the Israeli Income Tax Ordinance in the Capital Gains Track, all subject to the provisions of the Israeli Income Tax Ordinance. The grant of options and RSU’s is subject to the approval of the Board of Directors of the Company. The exercise price of the options shall be determined by the Board of Directors in its discretion, provided that the price per share is not less than the nominal value of each share, or to the extent required pursuant to applicable law or to qualify for favorable tax treatment, not less than 100% of the closing price of the share on the market on the date of grant or average of the closing price within a specific time frame prior to the grant as determined by the Board of Directors or a committee of the Board of Directors. Generally, options and RSU’s have been vested over a period of four years and have been valid for a period of seven years from the date of grant and are conditional upon continued service. As of February 28, 2018, (i) 257,662 options and RSU’s are available for future grant under the 2013 Plan, (ii) 28,500 options are outstanding at an exercise price of \$6.14 (which was adjusted and reduced from \$8.35 to \$6.14 in connection with the Shagrir Spin-off), expiring in February 2022, pursuant to the determination of our Board of Directors, dated February 2015, to issue to certain of the Company’s employees options, (iii) 212,500 options are outstanding at an exercise price of \$5.94, expiring in July 2023, pursuant to the determination of our Board of Directors, dated July 2016, to issue to certain of the Company’s employees options, and (iv) 115,075 RSU’s are outstanding, pursuant to the determinations of our Board of Directors, dated March 2014, May 2014, March 2017, April 2017, June 2017 and February 2018 to issue to certain of the Company’s directors and employees RSU’s.



In November 2003, the Company adopted an Employee Share Option Plan (2003) (the “**2003 Plan**”). The Board of Directors of the Company approves, from time to time, increases to the number of shares reserved under the 2003 Plan. To date, the options under the 2003 Plan are and have been granted in accordance with Section 102 to the Israeli Income Tax Ordinance in the Capital Gains Track, all subject to the provisions of the Israeli Income Tax Ordinance. The grant of options is subject to the approval of the Board of Directors of the Company. The exercise price of the options shall be determined by the Board of Directors in its discretion, provided that the price per share is not less than the nominal value of each share. The options usually vest over a period of four years and are valid for a period of five years from the date of grant and are conditional upon continued service. The 2003 Plan terminated at the end of November 2013. As of February 28, 2018, 62,384 options are outstanding at an exercise price of \$1.17, expiring on July 2018, pursuant to the determination of our Board of Directors, dated July 2013, to issue to certain of the Company’s employees options. The exercise price of these options was adjusted in connection with the Shagrir Spin-off, and following the completion of the spin-off the exercise price was reduced from \$3.38 to \$1.17.

As of February 28, 2018, our officers and directors held options (issued under both the 2003 Plan and 2013 Plan) to purchase an aggregate of 303,384 of our ordinary shares at exercise prices ranging from \$1.17 per share to \$6.14 per share and 115,075 RSU’s. For additional information concerning employee share option plans, see Note 13c of our consolidated financial statements.

## C. BOARD PRACTICES

### *Board of Directors*

Our Articles of Association provide for a board of directors of not less than three and not more than eleven members. Our board of directors is currently comprised of six members. Following the investment of DBSI in the Company, three of our directors are affiliated with DBSI. Each director is elected to serve until the next annual general meeting of shareholders and until his or her successor has been elected. Officers serve at the discretion of the board of directors. We are subject to the Israeli Companies Law, which entered into effect on February 1, 2000, as amended, and which requires the board of directors of a public company to determine the number of directors who shall possess accounting and financial expertise.

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

appoint any other person as a substitute director, except if the director is unable to attend a meeting of the board of directors.

*External Directors*

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

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

The Israeli Minister of Justice, in consultation with the Israeli Securities Authority, may determine that certain matters will not constitute an affiliation, and has issued certain regulations with respect thereof. Pursuant to the regulations issued by the Minister of Justice, a business or professional relationship maintained on a regular basis will not constitute affiliation if the relationship commenced after the appointment of the external director for office, the company and the external director consider the relationship to be negligible and the audit committee approved, based on information presented to it, that the relationship is negligible, and the external director declared that he did not know and could not have reasonably known about the formation of the relationship and has no control over its existence or termination. If the company does not have a controlling shareholder or a shareholder who holds company shares entitling him to vote at least 25% of the votes in a shareholders meeting, then the company may not appoint as an external director any person or such person's relative, partner, employer or any entity under the person's control, who has or had, on or within the two years preceding the date of the person's appointment to serve as external director, any affiliation with the Chairman of the Board, Chief Executive Officer, a substantial shareholder who holds at least 5% of the issued and outstanding shares of the company or voting rights which entitle him to vote at least 5% of the votes in a shareholders meeting, or the Chief Financial Officer.

Pursuant to Amendment 27 to the Companies Law enacted in February 2016, companies whose shares are listed for trading outside of Israel, may elect external directors who are not nationals of Israel.

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



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

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

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

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

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

No person may serve as an external director if the person's position or other business activities create, or may create a conflict of interest with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director. Additionally, no person may serve as an external director if the person, the person's relative, spouse, employer or any entity controlling or controlled by the person, has a business or professional relationship with someone with whom affiliation is prohibited, even if such relationship is not maintained on a regular basis, excepting negligible relationships, or if such person received from the company any compensation as an external director in excess of what is permitted by the Israeli Companies Law. If, at the time external directors are to be appointed, all current members of the board of directors are of the same gender, then at least one external director must be of the other gender.

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

the majority also includes at least a majority of the shareholders who are not controlling shareholders and who do not have a personal interest in the matter as a result of an affiliation with a controlling shareholder, who are present and voting (abstentions are disregarded); or  
that the non-controlling shareholders or shareholders who do not have a personal interest in the matter as a result of an affiliation with a controlling shareholder who are present and voted against the election hold 2% or less of the voting power of the company.

The initial term of an external director is three years and generally may be extended for two additional terms of three years (unless otherwise restricted in the articles of association to only one additional term), provided that with respect to the appointment for each such additional three year term, one of the following has occurred: (i) the reappointment of the external director has been proposed by one or more shareholders holding together 1% or more of the aggregate voting rights in the company and the appointment was approved at the general meeting of the shareholders by a simple majority, provided that: (1)(x) in calculating the majority, votes of controlling shareholders or shareholders having a personal interest in the appointment as a result of an affiliation with a controlling shareholder and abstentions are disregarded and (y) the total number of shares of shareholders who do not have a personal interest in the appointment as a result of an affiliation with a controlling shareholder and/or who are not controlling shareholders, present and voting in favor of the appointment exceed 2% of the aggregate voting rights in the company, and (2) effective as of January 10, 2014, the external director who has been nominated in such fashion is not a linked or competing shareholder, and does not have or has not had, on or within the two years preceding the date of such person's appointment to serve as another term as external director, any affiliation with a linked or competing shareholder. The term "linked or competing shareholder" means the shareholder(s) who nominated the external director for reappointment or a material shareholder of the company holding more than 5% of the shares in the company, provided that at the time of the reappointment, such shareholder(s) of the company, the controlling shareholder of such shareholder(s) of the company, or a company under such shareholder(s) of the company's control, has a business relationship with the company or is a competitor of the company; the Israeli Minister of Justice, in consultation with the Israeli Securities Authority, may determine that certain matters, under his conditions, will not constitute a business relationship or competition with the company; (ii) the reappointment of the external director has been proposed by the board of directors and the appointment was approved by the majority of shareholders required for the initial appointment of an external director; or (iii) effective as of November 25, 2014, the external director has proposed himself for reappointment and the appointment was approved by the majority of shareholders required for the initial appointment

of an external director.

However, under regulations promulgated pursuant to the Companies Law, companies whose shares are listed for trading on specified exchanges outside of Israel, including the Nasdaq Global Select, Global and Capital Markets, may elect external directors for additional terms that do not exceed three years each, beyond the three three-year terms generally applicable, provided that, if an external director is being re-elected for an additional term or terms beyond three three-year terms: (i) the audit committee and board of directors must determine that, in light of the external director's expertise and special contribution to the board of directors and its committees, the re-election for an additional term is to the company's benefit; (ii) the external director must be re-elected by the required majority of shareholders and subject to the terms specified in the Companies Law; and (iii) the term during which the nominee has served as an external director and the reasons given by the audit committee and board of directors for extending his or her term of office must be presented to the shareholders prior to their approval.

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

An external director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with service provided as an external director.

Following termination of service as an external director, a public company, a controlling shareholder thereof and any entity controlled by a controlling shareholder, may not grant any benefit, directly or indirectly, to any person who served as an external director of such public company, or to his or her spouse or child, including, not appointing such person, or his or her spouse or child, as an office holder of such public company or of any entity controlled by a controlling shareholder of such public company, not employing such person or his or her spouse or child and not receiving professional services for pay from such person, either directly or indirectly, including through a corporation controlled by such person, all until the lapse of two years from termination of office with respect to the external director, his or her spouse or child; and until the lapse of one year from termination of office with respect to other relatives of the former external director.

In June 2017, Mr. Arieh Ben-Yosef and Mr. Ofer Wolf were elected to serve as the Company's external directors for a term of three years, instead of Mr. Gil Oren and Mr. Zvi Rotenberg, who completed their service, upon the completion of three consecutive three-years-terms, in May 2017.

In June 2012, Mr. Nir Cohen was elected to serve as a director instead of Yoel Rosenthal.

In December 2014, Mr. Jonathan Irroni was elected to serve as a director and served until June 16, 2017, when he stepped down from office.

In January 2016, Ms. Yehudit Rozenberg was elected to serve as a director.

#### *Audit Committee*

#### *NASDAQ Requirements*

Our ordinary shares are listed for quotation on the NASDAQ Capital Market and we are subject to the NASDAQ Listing Rules applicable to listed companies. Under the current NASDAQ rules, a listed company is required to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. Yehudit Rozenberg and our two external directors, Mr. Arie Ben-Yosef and Mr. Ofer Wolf qualify as independent directors under the current NASDAQ requirements, and all are members of the Audit Committee. Mr. Arie Ben-Yosef is our “audit committee financial expert.”

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

#### *Israeli Companies Law Requirements*

The Israeli Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company’s business, approving related party transactions as required by law, classifying company transactions as extraordinary transactions or non-extraordinary transactions and as material or non-material transactions in which an officer has an interest (which will have the effect

of determining the kind of corporate approvals required for such transaction), assessing the proper function of the company's internal audit regime and determining whether its internal auditor has the requisite tools and resources required to perform his or her role and to regulate the company's rules on employee complaints, reviewing the scope of work of the company's independent accountants and their fees, and implementing a whistleblower protection plan with respect to employee complaints of business irregularities. Pursuant to Amendment 22, effective as of January 10, 2014, the responsibilities of the audit committee under the Companies Law also include the following matters: (i) with respect to related party transactions with a controlling shareholder, even if such transactions are not extraordinary transactions, that prior to entering into such transaction, to establish the requirement of having a competitive process under the supervision of the audit committee or an individual, or other committee or body, selected by the audit committee and according to criteria established by the audit committee, or to establish other procedures to follow with respect to such transactions; and (ii) to determine procedures for approving certain related party transactions with a controlling shareholder, which were determined by the audit committee not to be extraordinary transactions, but which were also determined by the audit committee not to be negligible transactions.

An audit committee must consist of at least three directors, including the external directors of the company, and a majority of the members of the audit committee must be independent or external directors. The Companies Law defines independent directors as either external directors or directors who: (1) meet the requirements of an external director, other than the requirement to possess accounting and financial expertise or professional qualifications, with Audit Committee confirmation of such; (2) have been directors in the company for an uninterrupted duration of less than 9 years (and any interim period during which such person was not a director which is less than 2 years shall not be deemed to interrupt the duration); and, (3) were classified as such by the company.

The chairman of the board of directors, any director employed by or otherwise providing services to the company, and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the audit committee.

According to the Companies Law, (1) the chairman of the audit committee must be an external director, (2) the required quorum for audit committee meetings and decisions is a majority of the committee members, of which the majority of members present must be independent and external directors, and (3) any person who is not eligible to serve on the audit committee is further restricted from participating in its meetings and votes, unless the chairman of the audit committee determines that such person's presence is necessary in order to present a certain matter, provided however, that company employees who are not controlling shareholders or relatives of such shareholders, effective as of February 6, 2015, may be present in the meetings but not for the actual votes if such presence is requested by the audit committee, and that an office holder of the company, effective as of February 6, 2015, may be present in meetings if requested by the audit committee where substantial defects in the company's business administration are discussed to present such office holder's position with regard to a matter under his or her responsibility but not for the actual votes, and likewise, company counsel and company secretary who are not controlling shareholders or relatives of such shareholders may be present in the meetings and for the decisions if such presence is requested by the audit committee.

Currently, Yehudit Rozenberg and our two external directors, Mr. Arie Ben-Yosef and Mr. Ofer Wolf, serve as members of our audit committee and Mr. Arie Ben-Yosef chairs committee.

*Internal Auditor*

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

*Compensation committee*

Pursuant to an amendment to the Israeli Companies Law, which went into effect in December 2012 ("**Amendment 20**"), the board of directors of an Israeli company, whose shares or debentures are publicly traded, such as our company, are required to appoint a compensation committee that will advise the board of directors regarding the establishment of a compensation policy, pursuant to which terms of office and salaries of the company's officers will be regulated, as per the provisions of Amendment 20 (the "**Compensation Policy**").

The number of members in the compensation committee shall not be less than three and each of the company's external directors must be members of the compensation committee and they are to constitute a majority of the members of the compensation committee, with one of the external directors serving as the chairman of the compensation committee. The chairman of the board of directors, any director employed by or otherwise providing services to the company, and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the compensation committee. Pursuant to Amendment 27, the audit committee may serve as the company's compensation committee, provided that it meets the composition requirements of the compensation committee.

The responsibilities of the compensation committee include the following:

1. To recommend to the board of directors as to the Compensation Policy for officers, as well as to recommend, once every three years to extend the compensation policy subject to receipt of the required corporate approvals;
2. To recommend to the board of directors as to any updates to the Compensation Policy which may be required;
3. To review the implementation of the Compensation Policy by the company;
4. To approve transactions relating to terms of office and employment of certain company office holders, which require the approval of the compensation committee pursuant to the Israeli Companies Law; and
5. To exempt, under certain circumstances, a transaction relating to terms of office and employment from the requirement of approval of the shareholders meeting.

Pursuant to Amendment 20, the Compensation Policy shall be determined based, inter alia, on the following parameters: (a) advancements of the goals of the company, its working plan and its long term policy; (b) creating proper incentives to its officers, by taking into consideration, among others, the company's risk management policy; (c) the company's size and its operations; and (d) with respect to variable components of officers' salaries, such as bonuses and issuance of securities, the contribution of the respective officer to obtaining the company's goals and maximizing profits, all in accordance with a long term perspective and the position of the officer.

In addition, the Compensation Policy is to take into consideration, inter alia, the following issues: the education, skills, expertise and achievements of the officer, previous agreements with the officer, the ratio between the proposed terms to the average salary of the other employees of the company and of employees employed through third parties (manpower companies and cleaning and security services) and the effect of such gaps on the employment relationship in the company, the possibility to reduce variable components, if any, and the possibility of setting a cap on the exercise value of variable capital components that are not replaced by cash. If the terms of office and employment include grants payable upon termination then the Compensation Policy is to include reference to the term of office of the officer, the terms of employment during such period, the results of the company during said period and the officer's contribution to reaching the company's goals and maximizing its profits and the circumstances leading to the termination.

In addition, the compensation policy must set forth standards and rules on the following issues: (a) with respect to variable components of compensation - basing the compensation on long term performance and measurable criteria (though an insubstantial portion of the variable components can be discretion based awards taking into account the contribution of the office holder to the company. Pursuant to regulations recently issued by the Minister of Justice variable components equal to three month salaries of the relevant office holders, on an annual basis, shall be considered a non-material portion of the variable components); (b) establishing the appropriate ratio between variable components and fixed components and placing a cap on such variable components; (c) setting forth a rule requiring an office holder to return amounts paid, in the event that it is later revealed that such amounts were paid on the basis of data which prove to be erroneous and resulted in an amendment and restatement of the company's financial statements; (d) determining minimum holding or vesting periods for equity based variable components of compensation, while taking into consideration appropriate long term incentives; and (e) setting a cap on grants or benefits paid upon termination.

The board of directors of a company is obligated to adopt a Compensation Policy after considering the recommendations of the compensation committee. The final adoption of the Compensation Committee is subject to the approval of the shareholders of the company, which such approval is subject to certain special majority requirements, as set forth in Amendment 20, pursuant to which one of the following must be met:

the majority of the votes includes at least a majority of all the votes of shareholders who are not controlling (i) shareholders of the company or who do not have a personal interest in the Compensation Policy and participating in the vote; abstentions shall not be included in the total of the votes of the aforesaid shareholders; or

- (ii) the total of opposing votes from among the shareholders described in subsection (i) above, does not exceed 2% of all the voting rights in the company.

Nonetheless, even if the shareholders of the company do not approve the Compensation Policy, the board of directors of a company may approve the Compensation Policy, provided that the compensation committee and, thereafter, the board of directors, resolved, based on detailed, documented, reasons and after a second review of the Compensation Policy, that the approval of the Compensation Policy is for the benefit of the company.

Our audit committee also serves as our compensation committee, pursuant to the provisions of Section 118A(d) of the Companies Law.

#### *Executive Compensation Policy*

On September 12, 2013, a meeting of the shareholders of the Company took place, approving the Compensation Policy, which had been recommended by the Compensation Committee and approved by the Board of Directors, for the Company's directors and office holders, in accordance with the requirements of the Israeli Companies Law. On May 27, 2014, at the annual meeting of the shareholders, an amendment to the Compensation Policy was approved to include specific provisions with respect to compensation to be paid to DBSI in consideration for the management services currently provided to the Company in accordance with the Management Services Agreement entered into with DBSI on August 1, 2011.

On October 6, 2016, a meeting of the shareholders of the Company took place, approving the Company's new Compensation Policy, which has been recommended by the Compensation Committee and approved by the Board of Directors, for the Company's directors and office holders, in accordance with the requirements of the Israeli Companies Law.

The Compensation Policy includes, among other issues prescribed by the Israeli Companies Law, a framework for establishing the terms of office and employment of the office holders, a recoupment policy, and guidelines with respect to the structure of the variable pay of office holders. The Compensation Policy includes a compensation, bonus and benefits strategy for office holders which is designed in order to reward performance, maintain a reasonable wage structure throughout the organization and to reinforce a culture in order to promote the long-term success of the Company. The compensation program rewards team accomplishments and promotes individual accountability. Variable compensation depends primarily on Company's results, with additional measures for individual performance against defined objectives tied to the Company's strategic goals. Under the Compensation Policy we seek to provide competitive compensation that is commensurate with performance and we seek to promote a long-term commitment to the Company by our senior executives.



Our compensation philosophy includes compensating our executives at levels that are competitive with our peer group companies, in order to attract and retain talented executives and to provide compensation, including equity based incentives, which align the interests of our executives with the interests of our shareholders. Under the Compensation Policy, our program is designed to provide incentives and rewards for both our short-term and long-term performance, and is structured to motivate the Company's office holders to meet our strategic objectives, thereby maximizing total return to shareholders. The Company aims to balance the mix of the fixed components of the terms of office and employment (e.g. base salary and benefits) and the variable compensation in order to, among other things, appropriately incentivize office holders to meet the Company's goals, and is structured by us so as to discourage the assumption of excessive short-term risk but without constraining innovation and reasonable business practices.

In making compensation decisions, our Compensation Committee and Board of Directors may reference third-party surveys that provide compensation data and review feedback from an independent compensation consultant. In making its determinations with respect to an office holder's compensation, the Compensation Committee has the authority to retain the services of an independent third party compensation consultant, and may do so from time to time to evaluate and assist in the process of determining an appropriate compensation structure, to make revisions to the Compensation Policy, or to suggest revisions to the compensation of a specific office holder. The Company may also periodically engage an outside consultant to provide market and peer compensation data and other insights.

We design office holder's base salaries to fall within a competitive range of similar companies to ours. Generally, the base salary established for an individual office holder reflects many inputs, including our CEO's assessment of the office holder's performance, the level of responsibility such office holder bears, and competitive pay levels based on salaries paid to employees with similar roles and responsibilities at similar peer group companies.

The annual cash bonus (the "**Target Bonus**"), shall be determined and approved by the Compensation Committee and the Board of Directors at the beginning of each year together with the approval of the Company's annual budget, no later than the end of the first quarter (except the first year of adoption). The Target Bonus shall be defined in terms of multiples of the fixed monthly compensation of the applicable office holder, subject to a maximum cash amount which can be paid to an office holder as variable cash compensation in each year, all as set forth in the Compensation Policy. The actual amount of the Target Bonus shall be based on compliance with performance measures based on measurable criteria to be determined in advance by the Board of Directors, on an annual basis, as part of the process of approval of the Company's annual budget and work plan. Such performance measures may be established for each office holder based on the Company performance as a whole, or with respect to a specific division or market segment, as applicable. The Target Bonus may include one or more of the performance measures, which are based, *inter alia*, upon Non GAAP profits, operating income, EBIT or EBITDA, GAAP net income, EPS and/or sales. In addition to the above, a non material portion of the Target Bonus, which may not exceed 5% of the maximum bonus, may be based on discretionary criteria that are non-measurable based on the personal contribution of the employee and management recommendation, subject to approval by the relevant corporate bodies as required under the Companies Law. The Target Bonus shall be determined according to the extent the office holder complied with the targets, in a manner which shall be measured in terms of percentages of attainment with respect to each performance measure, subject to a minimum threshold, below which no bonus shall be paid to the office holder, and as determined in advance for each performance measure.



Historically, we have granted share options to our employees, including office holders, in order to align their interests with the interests of our shareholders by tying the value delivered to them to the value of our ordinary shares, and may continue to do so pursuant to the Compensation Policy. We may also make grants of share options or other equity based compensation (e.g. restricted stock units) at the discretion of our Board of Directors and the Compensation Committee in connection with the hiring or promotion of new executive officers. We grant share options to purchase ordinary shares of the Company at an exercise price equal to the closing price of the Company's Ordinary Shares on the date of the grant or equal to the average closing price within a specific time frame prior to the date of grant; therefore, the options only have value if our share price increases. The vesting period is customarily over a period of two to four years. The Company attempts to ensure that the share option grants are granted pursuant to a tax beneficial or qualified plan as "Section 102" share option plans in Israel. Generally, the size of each equity award to an office holder is determined after considering the role of each office holder within the Company, the importance of his/her function within the organization and the office holder's previous equity awards. The fair market value of the equity award for the office holders will be determined according to acceptable valuation practices at the time of grant. Under the Compensation Policy, such fair market value, as examined at the time of grant as aforesaid, shall not exceed the amount of 250% of the fixed compensation of the CEO and the percentage of the dilution which results from the allocation shall not exceed, in respect of the CEO, 10% of the Company's issued and outstanding share capital on a fully diluted basis, and shall not exceed the amount of 50% of the fixed compensation of any office holders (excluding the CEO) and the percentage of the dilution which results from the allocation shall not exceed, in respect of any office holder (excluding the CEO), 2% of the Company's issued and outstanding share capital on a fully diluted basis, all as set forth in the Compensation Policy. The Compensation Policy dictates that the Board of Directors may, following approval by the Compensation Committee, extend the period of time for which an award is to remain exercisable, re-price the options or make provisions with respect to the acceleration of the vesting period of any office holder's awards, including, without limitation, in connection with a corporate transaction involving a change of control. The Company does not have any equity ownership guidelines that require any of our directors or other office holders to hold a stated number or fixed percentage of our ordinary shares, nor do they have to continue to hold for any period of time shares in the Company which they acquired as a result of the exercise of fully vested option grants.

We provide our office holders with benefits that we also generally make available to all salaried employees. Some of these benefits are offered pursuant to legal requirements (such as mandatory pension fund contributions, severance pay contributions, forms of workmen's compensation insurance, vacation and sick day accrual, etc.). Others are consistent with common practice in the general labor market (e.g. education fund contributions, employer provided automobiles, etc.) and which often enable the employee and/or the Company to benefit from various tax advantages with respect to such employee benefits. Other benefits are intended at supplementing the ongoing base wages, to reimburse the employee for expenses and/or to provide additional long-term incentives to the employee.

We provide maternity leave or paternity leave to all office holders in accordance with the provisions of applicable law. The Company pays salaries to all office holders for sick leave from the initial sick day.

Office holders receive annual vacation leave in accordance with their employment agreement and as determined for office holders based on seniority and tenure of employment. Office holders are paid annual recreation allowances as required under applicable law and government extension orders.

All compensation arrangements of office holders are to be approved in the manner prescribed by applicable law. Our Compensation Committee will review the Compensation Policy on an annual basis, and monitor its implementation, and recommend to our Board of Directors and shareholders to amend the Compensation Policy as it deems necessary from time to time. The term of the Compensation Policy shall be three years as of the date of its adoption on October 6, 2016. Following such three year term, the Compensation Policy, including any revisions recommended by our Compensation Committee and approved by our Board of Directors, as applicable, will be brought once again to the shareholders for approval.

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

## D. EMPLOYEES

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

	Israel	Latin America ("LATAM")	Other	Total
2017				
Sales and Marketing	153	76	25	254
Administration	36	45	13	94
Research and Development	33	-	-	33
Other	107	172	42	321
Total	329	293	80	702
2016				
Sales and Marketing	120	81	24	225
Administration	31	46	16	93
Research and Development	32	-	-	32
Other	104	184	40	328

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Total	287	311	80	678
2015				
Sales and Marketing	124	34	25	183
Administration	27	31	15	73
Research and Development	29	-	-	29
Other	103	142	39	284
Total	283	207	79	569

95

We have entered into employment contracts with the majority of our employees, all of which contracts include non-competition, nondisclosure and confidentiality provisions relating to our proprietary information. We believe that our relations with our employees are satisfactory. We are not party to any collective bargaining agreements in Israel. However, in Israel we are subject to certain labor statutes and national labor court precedent rulings, as well as to certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Manufacturers Association of Israel) which are applicable to our employees by expansion order issued in accordance with relevant labor laws by the Israeli Ministry of Labor and Welfare, and which apply such agreement provisions to our employees even though they are not directly part of a union that has signed a collective bargaining agreement. The laws and labor court rulings that apply to our employees principally concern the minimum wage laws, work and rest hours, determination of severance pay, leaves of absence (such as annual vacation or maternity leave), sick pay and other conditions for employment. The expansion orders which apply to our employees principally concern the requirement for length of the work day and workweek, mandatory contributions to a pension fund, annual recreation allowance, travel expenses payment and other conditions of employment. We generally provide our employees in Israel benefits and working conditions beyond the required minimums. Additionally, due to agreements with the General Workers' Union in Brazil, Argentina, Mexico and the country's high inflation rate, we are required to increase employee salaries at a rate which could adversely affect our subsidiaries in such countries. For more information see Item 3.D – Risk Factors, General Risks relating to our Company.

Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause. We currently fund part of our ongoing severance obligations by contributing funds on behalf of our employees to a fund known as the "Managers' Insurance" or to pension funds. This fund provides a combination of savings plan, life insurance and severance pay benefits to the employee, giving the employee a lump sum payment upon retirement and securing part of the severance pay, if legally entitled, upon termination of employment. The Israeli legislation requires the implementation of such pension funds for employees who are employed after a certain period. Each employee contributes an amount equal to 6% of his or her salary and the employer contributes between 12.5% and 14.83% of the employee's salary. Following the enactment of Regulation Regarding Supervision of Financial Services (Provident Funds), 2014 (the "**Provident Funds Regulations**"), as of January 1, 2016, employers are required to provide the pension funds with certain information regarding the payments being transferred, including the transfer dates, the means of transfer and the account from which the transfer was made and in which the transfer was received. Employers are also required to provide information regarding their employees' wages and taxable and exempt components of the payments transferred. Employers are also required to provide pension funds with certain information upon cessation of payment to the relevant employee's fund, including the reason for such cessation and notice regarding the status of the severance pay in the event of termination of employment. After receipt of the required information, the pension fund is required to provide the employee a notice of cessation of payment and the effect such cessation will have on the employee's rights in the pension fund. Furthermore, the Provident Funds Regulations require the pension fund to provide employees feedback regarding payments transferred to the pension funds of their employees in the relevant company. In addition, late payments may bear interest, and employees may require pension funds to repay amounts paid in excess. In addition, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, an agency similar to the United States Social Security Administration. Since January 1, 1995, such amounts also include payments for national health insurance. The payments to the National Insurance Institute are approximately 14.5% of wages up to a specified amount, of which the employee contributes approximately 66% and the employer contributes approximately 34%.

In our subsidiaries in LATAM we are obliged to pay severance fees in case the companies terminate the engagement with the employee after certain period of employment.

## E. SHARE OWNERSHIP

The following table details the number of our ordinary shares beneficially owned (including the shares underlying options or warrants held by such person that are exercisable within 60 days), by our directors and members of our senior management, as of February 28, 2018. Other than our CEO, David Mahlab, no executive officer beneficially owns more than 1% of our Ordinary Shares as of February 28, 2018.

Name	Title/Office	<i>As a % of Outstanding Ordinary Shares Beneficially Owned<sup>(1)</sup></i>	Shares owned as of February 28, 2018	Shares underlying options/warrants that are exercisable within 60 days of February 28, 2018
Yossi Ben Shalom <sup>(2)</sup>	Chairman of Board of Directors	26.95	% 2,209,771	-
Barak Dotan <sup>(2)</sup>	Director	26.95	% 2,209,771	-
Jehudit Rozenberg	Director	-	-	-
Nir Cohen	Director	-	-	-
Ofer Wolf	Director	-	-	-
Arieh Ben-Yosef	Director	-	-	-
David Mahlab	President and CEO	1.29	% -	105,734
All directors and officers as a group		28.24	% 2,209,771	105,734

The percentage of outstanding ordinary shares beneficially owned is based on 8,199,853 shares outstanding as of February 28, 2018 and includes ordinary shares subject to options or warrants held by that person that are currently (1) exercisable or exercisable within 60 days of February 28, 2018. The number of shares beneficially owned by a person includes ordinary shares subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of February 28, 2018.

(2) As office holders of DBSI Investment Ltd., Messrs. Yossi Ben Shalom and Barak Dotan may be considered to be the beneficial holders of the 26.88% of our issued and outstanding shares held by DBSI Investment Ltd.

**Employee Share Option Plans**

For information concerning employee share option plans, see Item 6- Directors, Senior Management and Employees-Compensation and Note 13c of our consolidated financial statements.



ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY  
TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table and notes thereto set forth certain information as of February 28, 2018, concerning the beneficial ownership (as defined in Rule 13d – 3 under the Securities Exchange Act of 1934) of ordinary shares by each person or entity who, to the best of our knowledge, beneficially owned more than 5% of our outstanding ordinary shares. The voting rights of our major shareholders do not differ from the voting rights of holders of all of our ordinary shares.

Name of Beneficial Owner	Percent of Outstanding Ordinary Shares Beneficially Owned*	Number of Ordinary Shares Beneficially Owned*
DBSI Investment Ltd. <sup>(1)(2)</sup>	26.95	% 2,209,771
The Phoenix Holding Ltd. <sup>(3)</sup>	9.13	% 748,880

The percentage of outstanding ordinary shares beneficially owned is based on 8,199,853 outstanding as of February 28, 2018 and includes ordinary shares subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of February 28, 2018. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. The number of shares beneficially owned by a person \* includes ordinary shares subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of February 28, 2018. Such shares issuable pursuant to such options or warrants are deemed outstanding for computing the percentage ownership of the person holding such options but not deemed outstanding for the purposes of computing the percentage ownership of any other person. To our knowledge, the persons named in this table have sole voting and investment power with respect to all ordinary shares shown as owned by them.

(1) As office holders of DBSI Investment Ltd., Messrs. Barak Dotan and Yossi Ben Shalom may be considered to be the beneficial holders of the 26.95% of our outstanding shares held by DBSI.

(2) Based on Schedule 13D/A filed with the SEC on November 1, 2016.

(3) Based on Schedule 13G filed with the SEC on February 20, 2018 by Mr. Itshak Sharon (Tshuva), Delek Group Ltd. and the Phoenix Holding Ltd. According to the Schedule 13G (i) the securities reported therein are beneficially owned by various direct or indirect, majority or wholly-owned subsidiaries of the Phoenix Holding Ltd. (herein, the “**Subsidiaries**”), (ii) the Subsidiaries manage their own funds and/or the funds of others, including for holders of exchange-traded notes or various insurance policies, members of pension or provident funds, unit

holders of mutual funds, and portfolio management clients, (iii) each of the Subsidiaries operates under independent management and makes its own independent voting and investment decisions, and (iv) the Phoenix Holding Ltd. is a majority-owned subsidiary of Delek Group Ltd. and the majority of Delek Group Ltd.'s outstanding share capital and voting rights are owned, directly and indirectly, by Itshak Sharon (Tshuva) through private companies wholly-owned by him, and the remainder is held by the public.

As of February 28, 2018, there were 27 record holders of our ordinary shares, including 13 record holders in the United States (who held approximately 94.08% of our outstanding ordinary shares).

Changes in the percentages of ownership held by our various shareholders during the past three years were primarily results of investments during these years, our acquisition of Cellocator in 2007, the Private Placement and Rights Offering transactions in 2012, our acquisition of Shagrir Systems in 2014 and the Shagrir Spin-off in 2016. For further information regarding such investments, acquisitions and transactions please see Item 4 – Information on the Company.

Following the Private Placement transaction and the Rights Offering transaction, both of which occurred in 2012, , DSBI holds, as of February 28, 2018, 2,209,771 ordinary shares, constituting 26.95% of our outstanding ordinary shares.

Pursuant to the Shagrir Systems transaction, Pointer issued 994,357 Ordinary Shares to Shagrir System's selling shareholders, See Item 4.A. History and Development of the Company – Recent Developments.

For further information regarding these transactions please see Item 4 – Information on the Company and Item 5.B. – Liquidity and Capital Resources.

