

NEXUS TELOCATION SYSTEMS LTD  
Form F-3  
October 27, 2004

As filed with the Securities and Exchange Commission on October 27, 2004

Registration No. 333-

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM F-3**

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

**NEXUS TELOCATION SYSTEMS LTD.**

(Exact name of Registrant as specified in its charter)

**Israel**

(State or other jurisdiction of incorporation or organization)

**Not Applicable**

(I.R.S. Employer Identification No.)

1 Korazin Street  
Givatayim 53583 Israel  
972-3-572-3111

(Address and telephone number of Registrant's principal executive offices)

Puglisi & Associates  
850 Library Avenue, Suite 204  
Newark, DE 19711  
302-738-6680

(Name, address and telephone number of agent for service)

Copies of all Correspondence to:

**ORLY TSIONI, ADV.**  
Yigal Arnon & Co.  
1 Azrieli Center  
Tel Aviv, 67021 Israel  
Tel: 972-3-608-7851

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box:

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box:

**Calculation of Registration Fee**

Title of Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Price Per Security	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Ordinary Shares, par value NIS 0.03 per share	28,066,980 <sup>1</sup>	\$0.098 <sup>2</sup>	\$2,750,564.04	\$348.50
Ordinary Shares, par value NIS 0.03 per share	42,915,405	\$0.098 <sup>3</sup>	\$4,205,709.69	\$532.86
Total				\$881.36

- (1) Represents ordinary shares issuable upon the exercise of the warrants. This registration statement covers the offering by the Registrant of the ordinary shares issuable upon exercise of the warrants by the holders thereof.
- (2) Calculated pursuant to Rule 457(g)3 of the Securities Act of 1933.
- (3) Calculated pursuant to Rule 457(c) of the Securities Act of 1933 on the basis of the average of the bid and asked prices of our ordinary shares as reported on the OTC Bulletin Board on October 25, 2004.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted**

**SUBJECT TO COMPLETION  
Dated October 27, 2004**

**PROSPECTUS**

Nexus Telocation Systems Ltd.  
70,982,385 Ordinary Shares

This prospectus relates to the resale, from time to time, by the selling shareholders named in this prospectus of up to 70,982,385 ordinary shares (including up to 24,778,091 ordinary shares issuable upon the exercise of currently exercisable warrants and up to a further 3,288,889 ordinary shares issuable at a future date upon the exercise of certain additional warrants). The registration of these shares does not necessarily mean that any of the selling shareholders will offer or sell their shares.

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The selling shareholders may sell all or any portion of these shares from time to time in (i) open market transactions in the over-the-counter market through the OTC Bulletin Board; (ii) in privately negotiated transactions or otherwise; (iii) directly to purchasers or through agents, brokers, dealers or underwriters; (iv) at market prices prevailing at the time of sale, at prices related to such prevailing market prices, or at negotiated prices; or (v) or any other means described in the section entitled Plan of Distribution.

The Company will not receive any of the proceeds from the sale of the ordinary shares offered hereby. We will pay the costs of registering these shares under the prospectus, including legal fees.

Our ordinary shares currently trade on the OTC Bulletin Board under the symbol NXUS.OB. On October 25, 2004 the last reported sale prices of our ordinary shares were \$0.098.

**SEE RISK FACTORS BEGINNING ON PAGE 12 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY.**

This prospectus does not offer to sell or solicit an offer to buy any security other than the ordinary shares offered by this prospectus. In addition, this prospectus does not offer to sell or solicit any offer to buy any securities to or from any person in a jurisdiction where it is unlawful to make this offer or solicit an offer from a person in that jurisdiction.

**NONE OF THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION HAVE APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this Prospectus is \_\_\_\_\_, 2004.

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When you are deciding whether to purchase the securities being offered by this prospectus, you should rely only on the information incorporated by reference or provided in this prospectus or any supplement. We have not authorized anyone to provide you with different information. We are not making any offer of the securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of those documents.

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States. All references to dollars or \$ in this prospectus are to United States dollars, and references to NIS are to New Israeli Shekels.

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### PROSPECTUS SUMMARY

#### Our Business

We develop, manufacture and market low energy and cost effective wireless communications and location based information systems through the application of digital spread spectrum technologies. We are engaged in the development, production and marketing of our Nexosphere which can deploy an array of commercial wireless applications in the fields of Location Based Services, as well as the provision of related services through our subsidiaries. In April 2003, we decided to focus on specific applications including (i) stolen vehicles recovery (SVR) services utilizing our AVL architecture and Remote Mobile end-unit devices (RMU s), and (ii) remote monitoring and control of commercial assets through our Industrial Monitoring and Control (IMU) end-user devices. We believe that our Nexosphere technology will generally provide a cost-effective alternative for security, safety, asset location based management services offering increased operational reliability and lower operational costs.

Our security and safety services business is predominantly performed through our business partners in Israel and Latin America.

#### Recent Developments

##### *Equity Investments and the Conversion of Debt*

In April 2003, DBSI Investments Ltd. acquired a controlling stake in our company pursuant to a share purchase agreement with us dated March 2003 (the March Agreement). The March Agreement with DBSI and certain other investors provided for additional investments in our company through September 2003. Pursuant to the March Agreement DBSI invested an aggregate of \$2.6 million in our share capital from March to October 2003.

Pursuant to the March Agreement, through October 2003, additional investors invested approximately \$1.2 million in our share capital under the same terms and conditions provided in the March Agreement. Among those selling securityholders was Mr. Arik Avni, our Chief Executive Officer who invested \$44,000 in our share capital.

Overall, DBSI and the other investors invested an aggregate of approximately \$3.8 million. In consideration for their investment they acquired 86,804,543 ordinary shares at a purchase price of \$0.044 per share and warrants to purchase 60,763,183 ordinary shares at an exercise price of \$0.044 per share. Each of these investors was issued a warrant to purchase seven ordinary shares for every 10 shares purchased under the agreement. Pursuant to this agreement, DBSI is entitled to designate four of the seven members of our Board of Directors. Under the March Agreement, DBSI and the investors were granted certain demand and piggyback registration rights. In addition, all preemptive rights granted to shareholders of Nexus have also been terminated pursuant to the March Agreement and there are no longer any preemptive rights in our company.

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Of the securities described above, our shareholders approved the issuance of 32,663,184 ordinary shares (including warrants to purchase 13,449,547 ordinary shares), at a meeting of the shareholders held on August 26, 2003. Such approval was necessary under Israeli law, since such issuances were made to interested parties as defined under Israeli law.

In connection with the share purchase agreement, we reached an agreement with AMS Electronics Ltd. (AMS), the primary manufacturer of our end products. Pursuant to this agreement, AMS converted \$723,000 of convertible debentures issued to it on January 15, 2002 into 16,431,818 ordinary shares at a conversion price of \$0.044 per share, and was paid approximately \$300,000. AMS executed a proxy in favor of DBSI with respect to its ownership interest in our company. This proxy was terminated in June 2004.

#### Recent Developments

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In addition, Mr. Yaron Sheinman, our former Chairman, was issued 618,576 ordinary shares following his cashless exercise of options granted to him in July 2003, to purchase 860,000 of our ordinary shares with an exercise price of \$0.044 per share. The options were granted to Mr. Sheinman in consideration for consulting services he provided.

### ***Cooperation and Share Exchange Agreements with Pointer (Eden Telecom Group) Ltd.***

On February 25, 2004, we entered into a cooperation agreement with Pointer (Eden Telecom Group) Ltd. (Pointer), the operator of our system in Israel. Pointer specializes in providing location-based services for vehicles including SVR and fleet management and in marketing protection products for vehicles in Israel. Protection products include alarm systems, immobilizers and a distress button, which is an integral part of the system, allowing one to immediately alert assistance services allocated at a twenty-four hour manned telephone service center, which locates the vehicle and immediately sends the required service to the vehicle.

As part of this agreement Pointer renewed its commitment to purchase exclusively from us end units for its stolen vehicle retrieval system. Pointer undertook to purchase in 2004 end-units in an amount of \$2.3 million and during the following three years, in a minimum amount of \$4.2 million. We undertook to expand Pointer's infrastructure network. The term of the agreement is until the end of year 2007.

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Subsequently, on April 25, 2004, we entered into a share exchange agreement, or the Share Exchange Agreement, with the shareholders of Pointer, or selling shareholders, whereby we increased our holdings in Pointer from 14% to 100% of its issued share capital. Upon completion of the Share Exchange Agreement on June 27, 2004, we purchased all the outstanding shares and options to purchase shares of Pointer in consideration for the issuance to the selling shareholders of 32,485,318 of our ordinary shares and warrants to purchase up to an additional 24,778,091 of our ordinary shares exercisable at a price of \$0.044 per share, until the earlier of April 6, 2006 and the occurrence of a merger or acquisition transaction pursuant to which our current shareholders would hold less than 33% of all of our outstanding shares at such time. Upon completion of the transaction, we also purchased from certain of the selling shareholders their rights to repayment by Pointer of an aggregate of approximately \$5.2 million, pursuant to shareholder loans which they provided to Pointer. In consideration for the right to receive repayment of the loans, we issued such selling shareholders an additional 10,430,087 of our ordinary shares, constituting one of our ordinary shares for every \$0.50 owed to such selling shareholders pursuant to the loans. Furthermore, upon completion of the transaction, we provided indemnification letters to certain of the selling shareholders which had provided guarantees to Pointer's banks for the full amount of bank loans made to Pointer, or the Bank Loans, in an aggregate amount of approximately \$1.6 million. Pursuant to the indemnification letters, we agreed to indemnify such selling shareholders, in the event of the banks exercising their guarantees. As security for the indemnification letters provided by us to such selling shareholders, we issued them warrants exercisable at a price of NIS 0.03 per share, or the Guarantee Warrants, to purchase up to an aggregate of 3,288,889 of our ordinary shares, constituting one of our ordinary shares for each \$0.50 that we have agreed to indemnify them pursuant to the guarantees. Following the acquisition of Pointer, we will repay the Bank Loans in monthly installments terminating in October 2007, and the number of our ordinary shares exercisable under the Guarantee Warrants will be reduced in proportion to the amount of the Bank Loans repaid by us each month. Upon repayment of the Bank Loans, the Guarantee Warrants will terminate. The Guarantee Warrants, or any remaining reduced part of the Guarantee Warrants, are only exercisable in the event that we fail to repay the Bank Loans in accordance with the payment schedule between us and the bank. In addition, pursuant to the agreement, a number of options in Pointer held by its employees were converted into options of our company, constituting an aggregate of 2.7% of our share capital on a fully diluted basis. In consideration for all of the above, we transferred a number of our ordinary shares and warrants with an aggregate value equal to approximately 26% of our issued share capital on a fully diluted basis, post transaction. Prior to the completion of the acquisition, the directors of Pointer resigned from its board of directors and we assumed full control of Pointer.

Based on U.S. GAAP, revenues for the year 2003 of Pointer were NIS 44.3 million, representing an increase of approximately 15% compared to the year 2002 and operating profits of NIS 0.8 million. As of December 31, 2003 Pointer's shareholder's deficiency amounted to NIS 46.8 million.

### ***Exercise of warrants by Bank Hapoalim and other minority investors***

As of August 31, 2004, 14,319,546 warrants were exercised into our ordinary shares, par value NIS 0.03 each. Of these, warrants to purchase 11,051,818 of our ordinary shares were exercised by a cashless exercise into 9,737,409 ordinary shares (of which Bank Hapoalim exercised warrants to purchase 5,113,636 ordinary shares into 4,622,012 ordinary shares), and another 3,267,728 warrants were exercised into ordinary shares, for approximately \$143,000.

### ***Agreement in Principle to Purchase Shagrir Towing Services Ltd. and Shagrir (1985) Ltd.***

On July 20, 2004 our board of directors approved in principal the purchase, either directly by us or through one of our subsidiaries, of the activities and assets of Shagrir Towing Services Ltd. and Shagrir (1985) Ltd., in consideration for approximately \$44 million. Shagrir will loan

approximately \$10 million of the purchase price. Shagrir is one of the leading companies in Israel in the field of automobile repair services and towing services. Shagrir has approximately 730,000 subscribers throughout Israel and its fleet of vehicles include approximately 130 service cars, mobile garages and towing vehicles.

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We are currently negotiating with financial institutions and strategic investors in order to raise the required funds for the purchase of Shagrir's activities and assets.

The completion of the transaction is subject to the reaching of definitive agreements; the completion of due diligence review to our satisfaction; obtaining financing for the transaction; receipt of regulatory approvals; and the reaching of service agreements with insurance companies.

***Potential Investment in Pointer***

In September 2004, a group of investors lead by Gandyr Investments (2004) Ltd., controlled by Dr. Israel Yovel and Mrs. Judith Yovel Recanati, entered into a term sheet with us for the purchase of up to 49.9% of the shares of Pointer, based on a valuation of Pointer similar to that upon which we completed our purchase of Pointer in June 2004. The completion of the investment is subject to the completion of the acquisition of Shagrir as well as the completion of a due diligence review satisfactory to the investors, the execution of a definitive agreement and obtaining all regulatory approvals required.

***Potential Claim***

On November 26, 2002, we filed a claim with the Tel-Aviv Magistrate's Court for a permanent injunction against Bank Hapoalim B.M and the China National Electronics Import Export Beijing Company, or CEIEC. In the claim we requested that the court injunct Bank Hapoalim from paying CEIEC any sums pursuant to a guarantee in the amount of \$300,000 in favor of CEIEC provided to it in the framework of a previous transaction, and to injunct CEIEC from requesting Bank Hapoalim to pay it any sums pursuant to the guarantee. We requested the injunction as a result of unlawful requests made by CEIEC that Bank Hapoalim pay it the guarantee. Following a hearing in which CEIEC did not attend, the Tel-Aviv Magistrate's Court ruled in our favor on December 31, 2002, granting a permanent injunction prohibiting Bank Hapoalim from paying any funds to CEIEC pursuant to the guarantee and injuncting CEIEC from requesting Bank Hapoalim to pay it any funds pursuant to the guarantee. We understand that sometime in 2003 CEIEC commenced proceedings in China to which we have not been joined as a party, for payment of the guarantee plus interest at a rate of 0.5% commencing March 2002, and has since received interim judgments in the matter, the exact nature of which are not currently clear to us. In August 2004, Bank Hapoalim informed us, that it may pay CEIEC the guaranteed sum plus interest, and in such an event will request that we indemnify it for the amount paid. In light of the permanent injunction ordered in our favor in 2002, we expect to reject any requests by Bank Hapoalim for indemnification.

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**Corporate Information**

Our company was founded in 1991 by BVR Technologies Ltd. At that time, we began developing specialized long-range wireless solutions for location and messaging applications, using Frequency Hopping Spread Spectrum technology. Our legal and commercial name is Nexus Telocation Systems Ltd., and through December 1997 we operated under the name Nexus Telecommunication Systems, Ltd. Our shares are publicly traded on the Over-The-Counter Bulletin Board under the symbol NXUS.OB. Our executive offices and research and development main facilities are located in 1 Korazin Street, Givatayim, 53583, Israel, telephone number 972-3-572-3111. The headquarters of our subsidiary, Tracsat S.A., are located in Buenos Aires, Argentina. Our Web site is [www.nexus.telocation.com](http://www.nexus.telocation.com). Information on our web site is not incorporated by reference in this prospectus.

**FORWARD-LOOKING STATEMENTS**

This prospectus and the documents incorporated in it by reference contain forward-looking statements which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures, competitive pressures, revenues, growth prospects, product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as "may," "will," "should," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential" or the negative of such terms, or other comparable terminology.

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Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption Risk Factors and certain other matters discussed in this prospectus, the documents incorporated by reference in this prospectus, and other publicly available sources. Such factors and many other factors beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied

Any forward-looking statement speaks only as of the date on which that statement is made. We will not update any forward-looking statement to reflect events or circumstances that occur after the date on which such statement is made.

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### THE OFFERING

Securities offered by the selling shareholders	70,982,385
Ordinary securities outstanding as of October 1, 2004	266,271,504 ordinary shares (assuming the exercise of all our convertible securities into ordinary shares)
OTC Bulletin Board Exchange Symbol	NXUS.OB
Use of Proceeds	We will not receive any of the proceeds from the sale of ordinary shares by the selling shareholders.

### USE OF PROCEEDS

We will not receive any of the proceeds from the sale of ordinary shares by our selling shareholders. We have agreed to bear all expenses relating to the registration of the ordinary shares registered pursuant to the registration statement, of which this prospectus is a part. In the event any of the warrants or options are exercised we would receive the gross proceeds from such exercise (provided the exercise is for cash) and such proceeds will be used for general corporate purposes including working capital.

### CAPITALIZATION

The following table sets forth our short-term debt, long-term debt, convertible debentures and capitalization as of June 30, 2004 in U.S. dollars on an actual basis:

	<u>June 30, 2004</u>	
	<u>(in thousands)</u>	
Short-term debt	\$	11,452
Long term debt		6,010
Total shareholders' equity		8,862

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### MARKET PRICE DATA

Our ordinary shares have traded on the Nasdaq Bulletin Board under the symbol NXUS.OB. since August 2002 and previously traded on the Nasdaq SmallCap Market. The following table sets forth, for the periods indicated, the range of high and low prices of our ordinary shares.

2002

MARKET PRICE DATA

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First Quarter	2.49	1.38
Second Quarter	1.57	0.90
Third Quarter	1.30	0.10
Fourth Quarter	0.35	0.08

### 2003

First Quarter	0.24	0.06
Second Quarter	0.28	0.13
Third Quarter	0.26	0.13
Fourth Quarter	0.43	0.14

### 2004

January	0.65	0.20
February	0.49	0.29
March	0.48	0.39
April	0.41	0.135
May	0.19	0.145
June	0.175	0.135
July	0.17	0.125
August	0.15	0.12
September	0.14	0.115

## RISK FACTORS

*An investment in our securities is speculative and involves a high degree of risk. Therefore, you should not invest in our securities unless you are able to bear a loss of your entire investment. You should carefully consider the following factors as well as the other information contained in this prospectus before deciding to invest in our ordinary shares. 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. This prospectus 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. The information in this prospectus is complete and accurate as of this date, but the information may change after the date of this prospectus. We undertake no obligation to revise or update any forward-looking statements to reflect any event or circumstance that may arise or develop after the date of this prospectus.*

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### **Risk Factors Relating to our Company**

***Sale of all of the shares offered hereunder could significantly affect the market for our shares and could significantly affect the control and operation of the Company.***

The shares offered hereunder (including shares issuable upon the exercise of outstanding warrants and options) constitute, as of October 1, 2004 approximately 26.66% of the issued share capital of our company, on a fully diluted basis, of which 37.7% is held by DBSI, our controlling shareholder. The shares held by DBSI, an affiliate of the Company, are not generally considered to be included in the "public float" of our tradable shares. The market price for all of our shares could drop significantly were the shares registered hereunder sold, or if the market perceives a sale is imminent.

***We have a history of net losses.***

While in 2003, we had net income of \$5.3 million, this resulted from an \$8.5 million gain from the disposal of discontinued operations, offset by a \$3.3 million loss from continuing operations. With the exception of 2003, we have incurred a net loss in each year of our existence. In December 2003, our accumulated deficit was approximately \$81.9 million. In 2001 and 2002, we incurred annual net losses of approximately \$9.5 million and \$7.6 million, respectively. We have suffered substantial losses from our formerly owned subsidiary, NexusData Inc. (NexusData). Although we discontinued the operations of NexusData in the third quarter of 2002, sold that subsidiary in February 2003 and have reduced our operational on-going expenses, we may not achieve profitability or sustain significant revenues on a quarterly or annual basis in the future. If we continue to sustain prolonged net losses or losses from continuing operations, we may have to cease our operations.

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

We have a history of net losses.



We have historically financed our operations through public and private placements of equity and debt securities, cash generated from the sales of our systems, grants for research and development projects and bank credit lines. Pursuant to an agreement entered into on April 25, 2004, we purchased all of the securities of Pointer (Eden Telecom Group) Ltd., in consideration for the issuance of a number of ordinary shares and warrants with an aggregate value equal to approximately 26% of our issued share capital, on a fully diluted basis. We believe that our current assets, together with anticipated cash generated from operations and outstanding bank credit lines, will sufficiently allow us to continue our operations as a going concern for the foreseeable future. We cannot assure you 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. If we issue any equity or convertible debt securities, this may substantially dilute the interests of our current shareholders. 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.

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Due to the recent downturn in the world economy, the securities markets in general have recently experienced increased volatility, which has particularly affected the securities and operations of many high-technology 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 have affected our ability to realize investments at favorable terms. Our Argentinean subsidiary, Tracsat, is experiencing difficulties in obtaining bank credit lines despite its business achievements, primarily due to the economic and political conditions in Argentina. Under some circumstances, if we are unable to secure additional financing, we may have to stop our operations.

***We depend on a small number of customers.***

We depend on a small number of customers and our future depends on our ability to maintain our existing customers and attract new customers. For the twelve months ended December 31 2003, three of our customers accounted for approximately 91% of our revenues. In light of our sale of NexusData, we no longer engage in the automated meter reading industry and our operations are concentrated on our location based systems activities (LBS), which activities were halted in the United States, China, and Chile during 2002 principally as a result of the inability of the domestic operators in such countries to finance their operations. In addition, our customer in Venezuela had ceased issuing purchase orders to us, from mid-2002, as a result of the prevailing foreign currency restrictions imposed by the Venezuelan government and the economic and political situation in Venezuela, but began issuing such purchase orders again at the beginning of 2004. Due to continuous political and economical uncertainties in Venezuela, we cannot be sure whether we will receive any further purchase orders from this customer or when such orders will be received. Thus, our current revenues are generated mainly from the continued sales of our products and services to our customers in Israel, Argentina and Russia. If such customers were to reduce purchasing our products or services, our business would be adversely affected.

***Our operations are primarily concentrated on one industry and in few territories.***

Since the change in ownership and management of our company in April 2003 we have decided to primarily focus our marketing efforts on the sale of Stolen Vehicle Retrieval(SVR), products and services in Latin America. Consequently, there will be fewer outlets for us to generate revenues in the future. While our SVR operations have been our most significant source of revenue, we no longer offer a diversified array of products and solutions. The concentration of our operations on one facet of the location-based systems industry exposes us to considerable risk were this business line to undergo a downturn.

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***We depend on others to manufacture our systems and we rely on a single-source supplier for the manufacture of our end units.***

We do not have manufacturing facilities for our end unit devices. Most of the components of our systems are manufactured for us by independent manufacturers abroad and are assembled by a turn-key subcontractor located in Israel, and there is no certainty that this subcontractor 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;

We have a history of net losses.

political and economic disruptions;  
the imposition of tariffs and export controls on such products;  
work stoppages;  
changes in government policies; and  
the loss of molds and tooling in the event of a dispute with a manufacturer.

Our agreements with our suppliers are generally short-term in nature and may be terminated with little or no notice. If a supplier of ours were to terminate its relationship with us, we may be compelled to seek additional sources to manufacture certain of the components of our systems or even to change the design of our products. Although we believe that most of the components of our systems may be readily acquired from numerous suppliers, we cannot assure you that we would be successful in entering into arrangements with other suitable independent manufacturers without significantly impairing our sales in the interim period.

***We may not be able to adapt to customer preferences or new technologies.***

The market for wireless communications systems has been characterized by rapid technological developments. Our ability to increase revenue in the future depends on the commercial success of our SVR systems and on our ability to adapt to changing technologies, industry standards and customer preferences in a timely and cost-effective manner. We have focused our development on our location based security and management services in the area of SVR systems and Industrial Monitoring (Scada), and we have discontinued our research and development and marketing efforts of our two-way paging systems due to overall market considerations.

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***We rely on operators of existing paging networks to provide our Location Based Solution systems.***

One of the benefits of our automatic vehicle location (AVL) and Industrial and Monitoring Control (IMU) systems is that they utilize existing one-way paging networks, as their down-link interface, and therefore, do not require a relatively large initial investment in infrastructure. In order for us to take advantage of this benefit, domestic operators of our system will need to enter into and maintain strategic relationships with wireless communications companies that control existing paging infrastructure or already provide one-way paging services to large numbers of customers. Should they fail to maintain such relationships with wireless communication companies, our business would be adversely affected.

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

We face intense competition in the markets in which we operate. Our primary competitors in the markets in which we currently operate are Lo-Jack and Ituran, which to the best of our knowledge, currently offer vehicle location systems utilizing land-based radio networks in limited areas, that resemble our solutions. Some offer a similar solution to Nexus and others, like Lo-Jack, use a VHF based messaging unit, without a wide area network, which is sold to customers and is connected via radio to local law enforcement communication networks.

In addition, some primary competitors in the market for automatic vehicle location systems, such as, OmniTracks, @Track, Onstar, Satellite Security (Global Guard) and others are employing a combination of GPS (satellite-based location technology) over cellular-like systems. The systems offered by these companies use satellite-based technologies which usually require the use of tracking receivers installed in vehicles that work in conjunction with map display and fleet management software, position reporting formats, and other communications hardware and components.

Some of our other competitors offer location based services, which conform with the recent FCC ruling, requiring mobile phones to be equipped with either relatively accurate 911 capabilities (using GPS or differential time of arrival technologies), or less accurate 911 capabilities (using cell-id. Technology), such as True Position, Xypoint, CPS and SnapTrack). In the industrial monitoring market, our main competitor is Motorola (MOSCAD systems).

Most of our competitors have substantially greater capital resources and larger research and development staffs, facilities, marketing and distribution networks, name recognition and more extensive customer bases than us. While we plan to continue to improve our products and provide greater functionality than our products currently provide, we cannot guarantee that we will successfully differentiate our products from those of our competitors or that the marketplace will consider our products superior to alternative products. In addition, our competitors may develop products that render our products obsolete or less competitive.

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

Systems based on our products and systems are currently installed in Venezuela, Israel, Chile, China, Russia and Argentina. We are subject to the risks inherent in international business activities, including changes in the political and economic environment, unexpected changes in regulatory requirements, foreign exchange controls, tariffs and other trade barriers and burdens of complying with a wide variety of foreign laws and regulations. In addition, if for any reason exchange, price controls or other restrictions on conversion of foreign currencies were to be imposed, the above business could be negatively impacted. Moreover, certain of these international operations have experienced the following difficulties:

A severe and rapid currency devaluation in Argentina adversely affected Tracsat's US dollar results during 2002. This was mainly due to Tracsat's inability to increase its Peso-denominated prices to its customers, while its major costs of inventory and infrastructure are denominated in US dollars.

Due to the current political instability in Venezuela, the Venezuelan government has imposed foreign exchange controls, which have effectively led to the cessation of purchase orders for our SVR products and services from our main customer in Venezuela during 2003.

*The technology and standards in the industry in which we operate change rapidly and the introduction of products using new technology and the emergence of new industry standards and practices could negatively impact our business.*

The wireless communications industry is characterized by rapid technological changes. The introduction of products using new technology and the emergence of new industry standards and practices could make our products less competitive and cause us to reduce the prices of our products. There are several wireless communications technologies, including cellular telephone, personal communications services, specialized mobile radio and mobile satellite services which have been or may be implemented in the future for applications competitive with the applications we provide. Future implementation and technological improvements could lead to the production of systems which are competitive with, or superior to ours.

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

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*Our products employ proprietary technology, which is difficult to protect and which may infringe on the intellectual property rights of third parties.*

Our success and our ability to compete greatly depend on our proprietary technology. We rely on a combination of patent and trade secret laws, together with non-disclosure agreements and licensing arrangements to establish and protect proprietary rights in our products. We were granted certain patents in the United States and elsewhere; however, we have not invested significant resources to constantly update and maintain our proprietary technology. We cannot assure you that these efforts will successfully protect our technology because:

the laws of some foreign countries may not protect our proprietary rights as fully as do the laws of the United States;

if a competitor were to infringe on our proprietary rights, enforcing our rights may be time consuming and costly, diverting management's attention and our resources;

measures like entering into non-disclosure agreements afford only limited protection;

unauthorized parties may attempt to copy aspects of our products and develop similar products or to obtain and use information that we regard as proprietary; 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.

We have a history of net losses.

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In addition, others may assert infringement claims against us. The cost of responding to infringement claims could be significant, regardless of whether the claims are valid.

***The use of our systems is subject to international regulations.***

The use of our systems is subject to regulatory approvals of government agencies in each of the countries in which our systems are operated, including the State of Israel. We thus obtained in 2001 a regulatory acceptance from the FCC for our vehicular end-unit device (RMU) and for our SVR receiving base station. Our operators typically must obtain authorization from each country in which these systems are installed. While, in general, applicants have not experienced problems in obtaining regulatory approvals to date, the regulatory schemes in each country are different and may change from time to time. We cannot guarantee that approvals, which our operators have obtained, are or will remain sufficient in the view of regulatory authorities. In addition, we cannot assure you that operators of our systems will obtain licenses and approvals on a timely basis in all jurisdictions in which we wish to sell our systems or that restrictions on the use of our systems will not be unduly burdensome.

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***Our potential growth depends, to a great extent, on the success of the domestic operators of our system in commercializing our technology and marketing their services.***

The commercialization of our systems in each territory in which we operate is performed and controlled by the operators in each of these territories who license our technology, purchase our infrastructure and end units, and market their services in their territories. With the exception of Tracsat, our Argentinian subsidiary and Pointer (Eden Telecom Group) Ltd., our recently acquired subsidiary we do not control any of our other operators. The implementation of the operators' business plans depends mainly on their marketing strategies, their future financial stability and the specific requirements and circumstances in their territories. Our consecutive end unit sales, future system upgrades, future infrastructure extensions and revenues from royalties, where applicable, from such territories will be dependent on their penetration rate and successful sale growth as well as on the operators' continuous success and their continuous decision to offer these services and products in their respective territories. To date, such operations are essentially limited to Venezuela and Russia, while we do control such operations in Israel and Argentina. If we were to experience any setbacks regarding such operators, this would have a material adverse effect on our business.

***We may not be able to retain or attract key managerial, technical and research and development personnel that we need to succeed.***

Our success has largely depended and will depend in the future on our skilled professional and technical employees, substantially all of whom have written employment agreements. The competition for these employees is intense. We may not be able to retain our present employees, or recruit additional qualified employees, as we require them.

***High levels of inventory could adversely affect our gross margins.***

Should we fail to meet sales forecasts or suffer cancellations of orders from customers, we may find ourselves with a higher level of inventory than we currently need. For the twelve months ended December 31, 2003, we incurred inventory write-offs of \$111,000. As a result of a high level of inventory, we may be exposed to the risk of a decrease in the value of the inventory should the price of this inventory drop, causing our gross margins to be adversely affected. Furthermore, in the event that we maintain large amounts of inventory, certain products might be rendered obsolete due to modification and improvement of our products, which might cause us to continue to incur inventory write-offs.

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***Our major shareholder has a controlling stake in our company.***

Pursuant to the share purchase agreement of March 2003 wherein DBSI Investments Ltd. (DBSI) and other investors invested approximately \$2.58 million in our company, the investments completed in the second half of 2003, wherein DBSI and other investors invested approximately \$1.2 million and the acquisition of Pointer, DBSI currently owns approximately 37.7% of our share capital (on a fully diluted basis). Accordingly, DBSI has a controlling interest in our company. DBSI also has the right to appoint four out of our seven directors on our Board of Directors, and thus effectively controls our Board of Directors.

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Pursuant to an amendment to our agreement with AMS Electronics Ltd. (AMS) that was concluded in March 2003, AMS was issued 12.9% of our share capital (on a fully diluted basis), which following the subsequent private placements described in this prospectus and the sale of some of AMS' holdings in our company has been reduced to 3.1% (on a fully diluted basis).

### **Risk Factors Relating to our Ordinary Shares**

*We do not expect to distribute cash dividends.*

We do not anticipate paying cash dividends in the foreseeable future. Our Board of Directors will decide whether to declare any cash dividends in the future based on the conditions then existing, including our earnings and financial condition. According to the Israeli Companies Law, a company may distribute dividends out of its profits, so long as the company reasonably believes that such dividend distribution will not prevent the company from paying all its current and future debts. Profits, for purposes of the Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years.

*The market price of our ordinary shares has been, and may continue to be, very volatile.*

The market prices of our ordinary shares have fluctuated widely. The following factors, among others, may significantly impact the market price of our ordinary shares:

- 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 products under development by us or our competitors;
- regulatory development in the United States, Israel and other countries;
- delays in our testing and development schedules;
- events or announcements relating to our collaborative relationship with others;

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economic, political and other external factors; and  
period-to-period fluctuations in our operating results.

In addition, the securities markets in general have experienced volatility, which has particularly affected the market prices of equity securities of many companies and companies that have a significant presence in Israel. This volatility has often been unrelated to the operating performance of such companies.

*Our shares have been delisted from the Nasdaq SmallCap Market.*

In August 2002, our shares were delisted from the Nasdaq SmallCap Market and are now traded on the OTC Bulletin Board as a result of our failure to comply with the net tangible assets or stock holders equity requirements for continued listing set forth in NASDAQ Marketplace Rule 4310(c)(2)(B). Consequently, selling and buying our securities has become more difficult because of delays in the timing of transactions and in obtaining accurate quotations. Furthermore, broker-dealers are subject to an SEC rule that imposes additional sales practice requirements on broker-dealers who sell low-priced securities to persons other than established customers and institutional accredited investors. For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written agreement to the transaction prior to sale. These factors may affect the ability of broker-dealers to sell our ordinary shares and of shareholders to sell our ordinary shares in the secondary market and in turn could result in lower prices and larger spreads in the bid and ask prices for our ordinary shares than might otherwise be obtained.

*Corporate governance scandals and new legislation could increase the cost of our operations.*

As a result of recent corporate governance scandals and the legislative and litigation environment resulting from those scandals, the costs of being a public company in general have increased and may continue to increase in the near future. New legislation, such as the Sarbanes-Oxley Act of 2002, has 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 fees of our professional advisors and our insurance premiums.

*We do not publicize our quarterly financial statements.*

As a foreign private issuer, we are only required to publicize our annual financial statements. However, until 2002, we disclosed unaudited quarterly financial statements as a customary practice. In order to minimize general costs, we decided, in 2003, to discontinue this practice. As of January 1, 2003, we only publish our annual financial information as required by law and unaudited semi-annual financial statements. As a result, investors are no longer able to receive periodic financial information on a quarterly basis. This will affect their ability to assess the condition of our results and operations.

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## **Risk Factors Relating to Our Operations in Israel**

### *Conditions in Israel affect our operations.*

We are incorporated under the laws of the State of Israel, and our headquarters are located in Israel. We are directly affected by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could materially adversely affect our business, financial condition and results of operations. Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. Since the establishment of the State of Israel in 1948, hostility has existed, varying in degree and intensity, between Israel and the Arab countries. In addition, Israel and companies doing business with Israel have been subject to an economic boycott by the Arab countries. Although Israel has entered into agreements with some Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, there has been a significant increase in violence since September 2000 which has continued with varying levels of severity through 2003, and negotiations between Israel and Palestinian representatives have ceased. The political and security situation in Israel may result in certain parties with whom we have contracts claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital. Furthermore, many of our employees, R&D center and facility and those of many of our subcontractors are located in Israel, which is currently experiencing civil unrest, terrorist activity and military action. Since we do not have a detailed disaster recovery plan that would allow us to quickly resume business activity, we could experience serious disruptions if acts associated with this conflict result in any serious damage to our facilities. Our business interruption insurance may not adequately compensate us for losses that may occur and any losses or damages incurred by us could have a material adverse effect on our business. We cannot give any assurance that security and political conditions will not have such an effect in the future. Any future armed conflicts or political instability in the region would likely negatively affect business conditions and harm our results of operations.

Furthermore, all non-exempt male adult permanent residents of Israel especially under the age of 40, including some of our office holders and employees, are obligated to perform military reserve duty and may be called to active duty under emergency circumstances. Recently, there has been a 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.

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### *The Israeli rate of inflation may negatively impact our costs if it exceeds the rate of devaluation of the New Israeli Shekel against the U.S. dollar.*

A major part of our costs in Israel are not denominated in dollars and may be influenced from the rate of devaluation of the New Israeli Shekel. This exposes us to market risk from changes in foreign exchange rates as against the U.S. dollar, as our dollar costs in Israel may increase if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of such devaluation lags behind inflation in Israel. While in the twelve months ended December 31, 2003, the Israeli economy recorded negative inflation of approximately 1.9% where the U.S. dollar devalued against the NIS by approximately 7.6%, this is not typical. There can be no assurance that we will not incur losses from such fluctuations in the future.

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

We have received certain grants, programs and tax benefits from the Israeli Government, the European Union and the BIRD Foundation. To remain eligible for these grants, programs and tax benefits, we must comply with certain conditions. In addition, some of these programs may restrict our right to manufacture products or transfer our intellectual property outside of Israel. If we do not meet these conditions in the future, the benefits we receive could be canceled and we may have to refund payments previously received under these programs. We cannot guarantee that these programs and tax benefits will be continued in the future, at their current levels or at all. During 2003 and 2004, we received several letters from the Israel Investment Center asserting that we did not fully implement our approved investment program and as such, all of the benefits we received under this approved investment program may be cancelled. If these programs and tax benefits are ended, our business, financial condition and results of operations could be adversely affected.

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***Service and enforcement of legal process.***

Service of process upon directors and officers of our company and the Israeli experts named herein, all of who reside outside the United States, may be difficult to effect within the United States. Furthermore, since the majority of our assets are located outside the United States, any judgment obtained against us in the United States may not be enforceable within the United States. We have been informed by our legal counsel in Israel, Yigal Arnon & Co., that there is doubt as to the enforceability of civil liabilities under the Securities Act and the Exchange Act in original actions instituted in Israel. However, subject to certain time limitations, Israeli courts may enforce United States final executory judgments for liquidated amounts in civil matters obtained after due trial before a court of competent jurisdiction (according to the rules of private international law currently prevailing in Israel) which enforces similar Israeli judgments, provided that: (i) due service of process has been effected; (ii) such judgments or the enforcement thereof are not contrary to the law, public policy, security or sovereignty of the State of Israel; (iii) such judgments were not obtained by fraud and do not conflict with any other valid judgment in the same matter between the same parties; and (iv) an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court.

**Risk Factors Affecting Our Subsidiaries**

***We are dependant upon the success of Tracsat, our subsidiary in Argentina***

Revenues generated by Tracsat, our subsidiary in Argentina, have increased consistently since the beginning of 2002 until 2003. We depend on the ability of Tracsat to maintain its growth and market penetration. We cannot be sure that Tracsat will be able to operate successfully in the future, because its operations are dependent upon many factors, many of which Tracsat does not control, such as:

- General political and economic circumstances in Argentina;
- Trends in the Argentinean insurance industry;
- Rate of car theft, value of cars and other inherent factors related to the SVR business, such as the success of law enforcement programs; and
- Competition and consumer satisfaction.

***Tracsat depends on a small number of customers and business partners.***

Tracsat depends on a small number of customers and business partners and its future depends on its ability to maintain existing customers and business partners and attract new customers and business partners. Revenues in Argentina are mainly generated from two customers. If any of our current customers cease to do business with us, or if we fail to attract new customers or business partners our operations could seriously be harmed or we may have to cease operations under certain circumstances.

***The volatile exchange rate between the Argentinean Peso and the U.S. dollar may negatively impact the results of our operations.***

Due to the increasing impact of the results of Tracsat on our consolidated financial results, and the fact that most of its revenues are not denominated in dollars, the significant devaluation in the Argentinean Peso and continuing economic instability in Argentina could have a severe negative effect on the business and overall profitability of Tracsat. Because we depend on the profitability of Tracsat, our business could also be severely damaged as a consequence. Under certain circumstances we may be forced to cease operations as a result.

***The future operations of Tracsat may depend on its ability to obtain additional financing.***

Although Tracsat has reached its operational stage through our effective management efforts, it still depends on our financial support, primarily due to economic conditions in Argentina. We cannot assure that we will have the ability to continue to finance Tracsat or to find other financing alternatives for Tracsat in a timely manner. Tracsat's future operations may be materially affected if we do not continue to provide it with additional funding at the level currently being made by us.

***Our acquisition of Pointer could result in operating difficulties and other adverse consequences.***

On June 27, 2004, we acquired an additional 86% of the shares of Pointer (Eden Telecom Group) Ltd. (Pointer), an Israeli company which specializes in providing location-based services for vehicles including SVR and fleet management and in marketing protection products for vehicles in Israel, in addition to our initial shareholding of 14% of Pointer's outstanding share capital. Consequently, following the acquisition, Pointer has become our wholly-owned subsidiary. The process of integrating Pointer is risky and may create unforeseen operating difficulties and expenses. The areas in which we may encounter difficulties include:

diversion of management time (both ours and that of the Pointer) from the ongoing development of our businesses, issues of integration and future products and services;

the need to implement controls, procedures and policies in Pointer appropriate for a public company that prior to its acquisition was a private company.

We have limited experience in managing this integration process. Moreover, the anticipated benefits of this acquisition may not be realized.

***We acquired Pointer on an as is basis.***

Prior to our acquisition of Pointer, certain of its shareholders guaranteed bank loans to Pointer in the amount of approximately \$1.6 million. As part of the acquisition we agreed to indemnify such guarantors in the event that the banks recall the loans from such guarantors. We acquired Pointer on an as is basis. Should we discover significant problems with Pointer of which we are currently not aware, or should we be required to indemnify such former shareholders of Pointer for the full or a material part of the \$1.6 million loan, this could result in the cessation of our operations.

***Pointer has a history of losses.***

Pointer has suffered recurring operating losses and has a working capital deficiency. These conditions raise substantial doubt about Pointer's ability to continue as a going concern. Pointer's recuperation plan may reverse this trend, however, Pointer has yet to record net profits throughout its existence. While its revenues have grown over the years, there is no guarantee that its business will ever be profitable. Since Pointer only operates in Israel, its business is affected by changes in the Israeli market. Changes such as the reduction in car theft resulting from the building of the separation fence between Is