NEXUS TELOCATION SYSTEMS LTD
Form 20-F
June 30, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

For the fiscal year ended December 31, 2004	**Commission File File No.**

NEXUS TELOCATION SYSTEMS LIMITED

(Exact name of Registrant as specified in its charter
and translation of Registrant s name into English)

Israel
(Jurisdiction of incorporation or organization)

**1 Korazin Street,
Givatayim 53583 Israel**
(Address of principal executive offices)

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

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

Ordinary Shares, NIS 0.03 nominal value per share
(Title of Class)

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:

170,450,516

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

Yes x No o

Indicate by check mark which financial statements the registrant has elected to follow:

Item 17 o Item 18 x

This Annual Report on Form 20-F 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, 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 Nexus Telocation Systems Limited (we or the Company or Nexus) will not lose a significant customer or customers or experience increased fluctuations of demand or rescheduling of purchase orders, that our markets will grow, that our products will remain accepted within their respective markets and will not be replaced by new technology, that competitive conditions within our markets will not change materially or adversely, that we will retain key technical and management personnel, that our forecasts will accurately anticipate market demand, and that there will be no material adverse change in our operations or business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. In addition, our business and operations are subject to substantial risks which increase the uncertainty inherent in the forward-looking statements. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved. Factors that could cause actual results to differ from our expectations or projections include the risks and uncertainties relating to our business described in this annual report at Item 3. Risk Factors.*

PART I.

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

ITEM 2. OFFER STATISTICS AND EXPECTED TIME TABLE
Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA
The selected financial data is incorporated by reference to Item 5. 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.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS
Our business, operating results and financial condition could be seriously harmed due to any of the following risks, among others. If we do not successfully address the risks to which we are subject, we could experience a material adverse effect on our business, results of operations and financial condition and our share price may decline. We cannot assure you that we will successfully address any of these risks

General Risks Factors Relating to Our Company

This annual report and statements that we may make from time to time may contain forward-looking information. There can be no assurance that actual results will not differ materially from our expectations, statements or projections. Factors that could cause actual results to differ from our expectations, statements or projections include the risks and uncertainties relating to our business described below.

Our strategic decision to focus on being a service provider, providing a range of services to automobile owners and the insurance industry could result in operating difficulties and other adverse consequences.

Between June 2004 and February 2005, we made two acquisitions in Israel becoming a leading service provider to automobile owners and insurance companies in Israel, through our currently wholly owned subsidiary Shagrir Motor Vehicle Systems Ltd. (formerly known as Pointer (Eden Telecom Group) Ltd.), or Shagrir:

In June 2004 we purchased all of the outstanding and issued shares of Pointer (Eden Telecom Group) Ltd. (renamed in January 2005, Shagrir Motor Vehicle Systems Ltd.) not already held by us. Shagrir was our local Israeli operator which provided a broad scope of services, based on our technology and know-how relating mainly to location based services, stolen vehicle retrieval and security markets.

In February 2005, pursuant to an Asset Purchase Agreement, our subsidiary, Shagrir, purchased certain of the activities and assets of Shagrir Towing Services Ltd. and its subsidiary, Shagrir (1985) Ltd. (together, Shagrir Towing Services). The business activities acquired by Shagrir constitute all of the road-side assistance and towing services of Shagrir Towing Services, which are sold to insurance companies and are provided to approximately 700,000 subscribers throughout Israel and include a fleet of approximately 120 service cars, mobile garages and towing vehicles.The assets and activities of Shagrir Towing Services have been integrated into our wholly-owned subsidiary Shagrir.

Currently Shagrir s business is expected to materially influence our business and is expected to account for the majority of our business and revenues in the foreseeable future.

In June 2004, we also incorporated a Mexican company, Pointer recuperacion de Mexico S.A. de C.V., or Pointer SA, to serve as our local Mexican operator and service provider, which would provide stolen vehicle retrieval and road-side assistance services, targeting Mexican corporations. Pointer SA became operational in February 2005 and is still in its development stage.

The process of integrating Shagrir and Pointer SA into our business is risky and may create unforeseen operating difficulties and expenses resulting from management time and efforts required to ensure successful integration. As we have limited experience in managing such processes, the anticipated benefits of these acquisitions and the incorporation of Pointer SA may not be realized. Failure to integrate the operations of Shagrir and Pointer SA into our business may have a material adverse affect on our financial condition.

We have a history of net losses.

With the exception of 2003, we have incurred a net loss in each year of our existence. While in 2003, we had net income of $5.3 million, this resulted from a one-time non-cash capital gain of $8.5 million from the disposal of discontinued operations, offset by a $3.3 million loss from continuing operations. In December 2004, our accumulated deficit was approximately $87.7 million. As a result of our acquisition in June 2004 of Shagrir, we have consolidated into our financial reports the results of a company which, prior to 2004, had never recorded net profits and which had at the time of the acquisition and continues to have a working capital deficiency. Although the business activities of Shagrir Towing Services acquired by Shagrir are profitable and are currently being integrated into Shagrir, we expect to continue to sustain net losses in the foreseen future following the acquisition mainly as a result of the amortization of intangible assets acquired in connection with the acquisition of Shagrir and the acquisition of the activities and assets of Shagrir Towing Services, as well as the increased financial burden associated with such acquisitions, including the increase in working capital deficiency (see Item 4 Recent Developments). 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 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 a series of investments from March through October 2003, we issued a number of our ordinary shares and warrants with an aggregate value equal to approximately 32.5% of our current issued and outstanding capital, on a fully diluted basis. In June 2004, we purchased all of the securities of Shagrir not already held by the Company, in consideration for the issuance of a number of ordinary shares and warrants with an aggregate value equal to approximately 16.61% of our current issued and outstanding share capital, on a fully diluted basis. In February 2005, we raised $6 million additional capital among others in order to partly finance our acquisition of the road-side assistance and towing services of Shagrir Towing Services, and accordingly issued 71,428,570 of our ordinary shares and warrants to purchase up to 15,714,284 of our ordinary shares to various investors constituting 19.23% of our current issued and outstanding share capital (assuming the exercise of all of the warrants). Also in February 2005, our subsidiary Shagrir was loaned approximately NIS 100 million in convertible debt as part of Shagrir s acquisition of the road-side assistance and towing services of Shagrir Towing Services. Pursuant to these transactions we agreed to register for resale our ordinary shares issued to our investors, our ordinary shares issuable to our investors pursuant to the exercise of warrants and our ordinary shares issuable to lenders pursuant to the conversion of the convertible debt. As a result, we currently have outstanding or intend to have outstanding in the near future, effective registration statements covering 308,264,786 our securities (excluding 15,000,000 of our ordinary shares underlying registered options) (for further information regarding agreements relating to the acquisition of the road-side assistance and towing services of Shagrir Towing Services, see Item 4 **Recent Developments** and Item 10 **Material Contracts**). We 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. As a result of the registration statements that we currently have outstanding and currently anticipate filing, many or all of our investors who recently purchased our securities may elect to sell some or all of our securities. Should such sales be significant in volume or take place over a short period of time, our share price may decline significantly, and we may find it difficult to raise additional funding through the issuance of equity or convertible debt securities. Additionally, should any of Shagrir s lenders convert their debt into ordinary shares of Shagrir, this may substantially dilute our interest in Shagrir thereby reducing or eliminating our ability to control its operations. 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.

Due to the downturn in the world economy over recent years, the securities markets in general have recently 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.

Shagrir has significant loans which it is required to repay in accordance with a strict schedule

In order to finance Shagrir s acquisition of the road-side assistance and towing services of Shagrir Towing Services, it received a NIS 100 million credit facility from Bank Hapoalim, a NIS 40 million loan from Shagrir Towing Services and approximately NIS 50 million was loaned to it from a group of investors led by Gandyr Investments Ltd. and Egged Holdings Ltd. Should Shagrir fail to repay the loans in accordance with the repayment schedule pertaining to each loan and should a lender refuse to amend the relevant repayments schedule, such lender may realize certain liens that were created in its favor by Shagrir. This could result in Shagrir having to divest itself of parts of its business and may result in the cessation of its operations. This may have a material adverse affect on our financial condition. For further information on these loans, see Item 10 **Material Contracts**.

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, 2004, four of our customers accounted for approximately 31% of our revenues. (See further Notes 1(g) and 15(b)(3) of our consolidated financial statements). As a result of our acquisition of the activities of Shagrir Towing Services, we anticipate that the customers which will account for the majority of our revenues in future years will be Israeli insurance companies, which offer our road-side assistance and towing services as part of their vehicle insurance policy packages which they sell to their customers. Should Israeli insurance companies which currently purchase these services, or any other of our major customers reduce or cancel their purchases, our financial condition may be materially adversely affected.

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 location based system, or LBS 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;
- 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 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 and services.

We face intense competition in the markets in which we operate.

In Israel, our primary competitors are Europe Assistance Israel, Shlomo-SIXT and MEMSI, all of which mainly compete with us in providing road-side assistance and towing services although we currently are the leading road-side assistance and towing service provider in Israel. Ituran is our main direct competitor in the stolen vehicle retrieval services market.

Our primary competitors in the other geographical markets in which we currently operate are mainly Lo-Jack globally and Ituran in Argentina. Some offer a similar solution to ours in these markets 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, in these markets and also some other potential markets, some primary location based service providers who directly or indirectly compete with us employ other technologies, such as a combination of GPS (satellite-based location technology) over cellular-like systems. These systems use commonly existing infrastructure, which offer location based services, which conform with the recent FCC ruling, requiring mobile phones to be equipped with either relatively accurate 911 capabilities (using GPS or differential time of arrival technologies), or less accurate 911 capabilities (using cell-id. technology).

Should any of our competitors in Israel or globally successfully provide a broader, more efficient or attractive combination of services to insurance companies and automobile owners, our business results could be materially adversely affected.

Most of our competitors have substantially greater capital resources and significant research and development staffs, facilities, marketing and distribution networks, name recognition and extensive customer bases. While we plan to continue to improve our services and maintain our marketing efforts, we cannot guarantee that we will grow or even maintain our customer base or we may need to invest more in our efforts to do so.

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

Systems based on our products and systems are currently installed in, Israel, Argentina, Venezuela, Mexico, Russia, Chile and China. 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 Argentinian 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 of 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.

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 in the LBS sector 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.

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 LBS 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.

Our potential growth in the geographical territories where we do not control the domestic operator 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 LBS systems and other services 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 Argentinean subsidiary, Pointer SA our Mexican subsidiary, and Shagrir our Israeli subsidiary we do not control any of the 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 that we do not control are essentially limited to Venezuela, Russia, China and Chile, while we do control such operations in Israel, Mexico 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, 2004, we incurred inventory write-offs of $0.479 million. 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.

Our major shareholders have a controlling stake in our company.

Pursuant to the share purchase agreement of March 2003 wherein DBSI Investments Ltd., or DBSI and other investors invested approximately $2.6 million in our company, the investments completed in second half of 2003, wherein DBSI and other investors invested approximately $1.2 million, and the share purchase agreement consummated in February 2005, in which DBSI invested a further $1 million, DBSI currently owns approximately 25.38% (on a fully diluted basis), of our issued and outstanding shares. Pursuant to the Shareholders Agreement between DBSI and Egged Holdings Ltd., or Egged, 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. In addition, under the Shareholders Agreement with Egged, DBSI will vote its shares in favor of one director nominated by Egged. According to the terms of the Shareholders Agreement, Egged and DBSI will also vote their shares against certain resolutions brought to our shareholders for a resolution, such as new share issuances, increases in our share capital and certain transactions, unless they agree to vote otherwise. As a result, DBSI and Egged have the ability to control material decisions requiring the approval of our shareholders. For further information on the Shareholders Agreement between DBSI and Egged, see Item 10 **Material Contracts**.

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:

- macro changes and changes in market share in the markets in which we provide services and products;
- announcements of technological innovations or new products by us or our competitors;
- developments or disputes concerning patents or proprietary rights;
- publicity regarding actual or potential results relating to services rendered by us or our competitors;
- regulatory development in the United States, Israel and other countries;
- events or announcements relating to our collaborative relationship with others;
- economic, political and other external factors;

period-to-period fluctuations in our operating results; and

substantial sales by significant shareholders of our ordinary shares which are currently or are in the process of being registered.

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

Our 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.

Our ordinary shares may be affected by limited trading volume and may fluctuate significantly in price.

Our ordinary shares are traded on the Over-the-Counter Bulletin Board. Trading in our ordinary shares has been limited and there can be no assurance that an active trading market for our ordinary shares will develop. As a result, this could adversely affect our shareholders ability to sell our ordinary shares in short time periods, or possibly at all. Thinly traded ordinary shares can be more volatile than ordinary shares traded in an active public market. The average daily trading volume of our ordinary shares in May 2005 was 147,233 shares. The high and low bid price of our ordinary shares for the last two years has been $0.58 and $0.08, respectively. Our ordinary shares have experienced, and are likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our ordinary shares without regard to our operating performance.

Our Ordinary Shares are deemed to be Penny Stock which may make it more difficult for investors to sell their shares due to suitability requirements.

Our ordinary shares are deemed to be penny stock as that term is defined in Rule 3a51-1promulgated under the Securities Exchange Act of 1934. Penny stocks are stock:

With a price of less than $5.00 per share;

That are not traded on a recognized national exchange;

Whose prices are not quoted on the NASDAQ automated quotation system; or

In issuers with net tangible assets less than $2.0 million (if the issuer has been in continuous operation for at least three years) or $5.0 million (if in continuous operation for less than three years), or with average revenues of less than $6.0 million for the last three years.

Broker/dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. These requirements may reduce the potential market for our ordinary shares by reducing the number of potential investors. This may make it more difficult for our shareholders to sell shares to third parties or to otherwise dispose of them. This could cause our share price to decline.

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. 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 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.

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. Our headquarters, the headquarters of Shagrir, our operations and the operations of Shagrir, are located in Israel. We are directly affected by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could materially adversely affect our business, financial condition and results of operations. Israel s economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980 s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. Since the establishment of the State of Israel in 1948, hostility has existed, varying in degree and intensity, between Israel and the Arab countries. In addition, Israel and companies doing business with Israel have been subject to an economic boycott by the Arab countries. Although Israel has entered into agreements with some Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, there has been a significant increase in violence since September 2000 which continued with varying levels of severity through 2004. Since the death of Yasser Arafat in 2004, low-level negotiations between Israel and Palestinian representatives have been renewed. Nevertheless, the political and security situation in Israel may result in certain parties with whom we have contracts claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions. 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 and subcontractors are located in Israel, which could still face a renewal of civil unrest, terrorist activity and military action. Since we do not have a detailed disaster recovery plan that would allow us to quickly resume business activity, we could experience serious disruptions if acts associated with this conflict result in any serious damage to our facilities. Our business interruption insurance may not adequately compensate us for losses that may occur and any losses or damages incurred by us could have a material adverse effect on our business. We cannot give any assurance that security and political conditions will not have such an effect in the future. Any future armed conflicts or political instability in the region would likely negatively affect business conditions and harm our results of operations.

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

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 part of our costs in Israel is 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. In the twelve months ended December 31, 2004, the Israeli economy recorded inflation of approximately 1.2% and the U.S. dollar devalued against the NIS by approximately 1.65%, this is not typical. For further discussion of such devaluation, see Item 5, Impact of Exchange Rate Fluctuations on Results of Operations, Liabilities and Assets and Item 11, Quantitative and Qualitative Disclosures About Market Risk . There can be no assurance that we will not incur losses from such fluctuations in the future.

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

We have received certain grants and programs from the Israeli Government, the European Union and the BIRD Foundation. 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, the benefits we receive could be canceled and we may have to refund payments previously received under these programs and pay higher royalties. We cannot guarantee that these grants and programs will be continued in the future, at their current or historical levels or at all. If these grants and programs are ended, our business, financial condition and results of operations could be adversely affected.

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.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Until 2003, our business focused primarily on the development, manufacture and sale of location based services and stolen vehicle retrieval services. In April 2003, our management decided to strategically focus on providing a range of services to automobile owners and insurance companies.

Our new strategy was implemented through two acquisitions in Israel and the establishment of a subsidiary in Mexico.

In June 2004 we purchased all of the outstanding and issued share capital of Shagrir not already held by us. Shagrir was our local Israeli operator and service provider, which mainly provided stolen vehicle retrieval and other security value-added services mainly for vehicle owners through a communication network based on our technology.

In June 2004, we also incorporated a Mexican company, Pointer SA, to serve as our local Mexican operator and service provider, which would provide stolen vehicle retrieval and road-side assistance services for vehicle owners using a communication network based on our technology.

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

As a result of the implementation of our strategy, we currently provide a range of services to automobile owners and insurance companies.

As a result of the two acquisitions we made in Israel, Shagrir, is currently the most significant operation we have, and is expected to account for the majority of our business and revenues in the foreseeable future. In Israel we currently provide all the range of our services.

Nexus 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. We operate under the Israel Companies Law 1999. Our shares are publicly traded on the Over-The-Counter Bulletin Board under the symbol NXUSF. 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, Shagrir, are located in Holon, Israel and Petach-Tikva, Israel. The headquarters of our subsidiary, Tracsat S.A., are located in Buenos Aires, Argentina. The headquarters of our subsidiary, Pointer SA, are located in Mexico City, Mexico. In January 2005, our subsidiary, Pointer (Eden Telecom Group) Ltd., was renamed Shagrir Motor Vehicle Systems Ltd. Our Web site is www.nexus.telocation.com. Information on our web site is not incorporated by reference in this annual report.

Recent Developments

Since January 1, 2004, the following important events have occurred to us:

Employment Agreement with our Chief Executive Officer

In May 2005, our Board of Directors approved an agreement with Mr. Danny Stern to serve as our chief executive officer. Pursuant to the agreement, Mr. Stern receives an annual gross salary of NIS 540,000 and was granted options to purchase 4,000,000 of our ordinary shares at an exercise price of $0.106 per share, pursuant to our 2003 option plan. Such options can be exercised in full after 48 months of continuous service, with 25% of the options vesting after each 12 month-period of continuous service. In addition, at the end of his first six months period of employment, we have agreed to determine an annual bonus mechanism.

The Purchase of Certain of the Activities of Shagrir Towing Services by our subsidiary, Shagrir

On February 28, 2005 pursuant to an Asset Purchase Agreement, Shagrir, our fully-owned subsidiary completed the purchase of the road-side assistance and towing services of Shagrir Towing Services, in consideration for approximately NIS 200 million. NIS 100 million was funded by a loan from Bank Hapoalim B.M, NIS 40 million was funded by a loan provided by Shagrir Towing Services and approximately NIS 50 million was loaned by a group of our shareholders led by Gandyr Investments Ltd. and Egged Holdings Ltd. In addition we invested an amount of NIS 4,550,000 in the share capital of Shagrir and provided it with a loan of NIS 5,000,000. As part of the transaction, we granted Bank Hapoalim B.M a two year warrant to purchase up to 10,000,000 of our ordinary shares, at a price per share of $0.18; and granted Shagrir Towing Services a two year warrant to purchase up to 25,000,000 of our ordinary shares, at a price per share of $0.18. Part of the loans provided by the investors led by Gandyr Investments Ltd. and Egged Holdings Ltd. may be converted into our shares and/or the shares of our subsidiary, Shagrir. For further information relating to the purchase of the activities and assets of Shagrir Towing Services, see Item 10 **Material Contracts**.

$6 million Investment

On February 28, 2005, a group of investors, including our controlling shareholder DBSI Investments Ltd, or DBSI, completed a $6 million investment in our share capital. Pursuant to the investment agreements, we issued (i) 71,428,570 of our ordinary shares at a price per share of $0.084 (of which 30,952,381were issued to Egged Holdings Ltd., or Egged) and (ii) warrants to purchase up to 15,714,284 of our ordinary shares at the same exercise price (of which warrants to purchase up to 6,809,523of our ordinary shares were issued to Egged), constituting approximately 19.23% of our current issued and outstanding share capital on a fully-diluted basis. Under the terms of the agreements, the warrants are exercisable until the earlier of: (a) April 6, 2006; or (b) our merger or the acquisition of substantially all of our assets. The transaction was approved by our shareholders at their annual meeting held on February 1, 2005. In addition, on March 13, 2005, we entered into a joinder agreement with the general manager of Shagrir, Mr. Ofer Lior pursuant to which in consideration for $69,735 we issued Mr. Lior (i) 830,179 of our ordinary shares at a price per share of $0.084 and (ii) a warrant to purchase up to 182,639 of our ordinary shares at the same exercise price, constituting approximately 0.22% of our current issued and outstanding share capital on a fully-diluted basis. This warrant is exercisable by Mr. Lior until the earlier of: (a) April 6, 2006; or (b) our merger or the acquisition of substantially all of our assets.

As part of the investment, DBSI and the major new investor, Egged consummated a shareholders agreement, pursuant to which they agreed to vote their shares jointly in respect of certain matters relating to our company and Shagrir. For further information on the Shareholders Agreement, see Item 10 **Material Contracts**.

Cooperation and Share Exchange Agreements with Shagrir

On February 25, 2004, we entered into a cooperation agreement with Shagrir, the operator of our system in Israel. As part of this agreement Shagrir renewed its commitment to purchase exclusively from us end units for its stolen vehicle retrieval system. Shagrir undertook to purchase in 2004 end-units in an amount of $2.3 million and during the following three years, in a minimum amount of $4.2 million. We undertook to expand Shagrir s infrastructure network. The term of the agreement is until the end of year 2007.

Subsequently, on April 25, 2004, we entered into an agreement with the shareholders of Shagrir, whereby we increased our holdings in Shagrir from 14% to 100% of its issued share capital. Upon completion of the agreement on June 29, 2004, we purchased all the outstanding shares and options to purchase shares of Shagrir. Upon completion of the transaction, we purchased from certain of Shagrir s shareholders their rights to repayment by Shagrir of an aggregate of $5,215,043.50 pursuant to loans which they provided to Shagrir. In consideration for the right to receive repayment of the loans, we issued such shareholders 10,430,086 of our ordinary shares, constituting one of our ordinary shares for every $0.50 owed to such shareholders pursuant to the loans. Furthermore, upon completion of the transaction, we provided certain shareholders of Shagrir which provided bank guarantees to Shagrir for an aggregate amount of $1,644,444.50, with an indemnification letter pursuant to which we agreed to indemnify them in the event of the banks exercising their guarantees. In consideration for the indemnification letters provided by us to such shareholders, the number of our ordinary shares that we issued to them pursuant to the aforementioned acquisition transactions was reduced by an aggregate of 2,288,888 ordinary shares, constituting one of our ordinary shares for each $0.50 that we have agreed to indemnify them pursuant to the guarantees. In addition, pursuant to the agreement, a number of options in Shagrir held by its employees were converted into 7,589,620 options of our company, constituting, an aggregate of 1.67% of our current issued share capital on a fully diluted basis. In consideration for all of the above, we transferred a number of our ordinary shares, warrants and employees options with an aggregate value equal to approximately 16.61% of our current issued share capital on a fully diluted basis, including the employees options as mentioned above and warrants to purchase up to 24,778,091 of our ordinary shares at an exercise price of $0.044, exercisable until the earlier of: (a) April 6, 2006; or (b) our merger or the acquisition of substantially all of our assets. Prior to the completion of the acquisition, the directors of Shagrir resigned from its board of directors and we assumed full control of Shagrir.

Exercise of warrants by Bank Hapoalim and other minority investors

From January 1, 2004 through June 20, 2005, 17,501,364 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 6,449,546 warrants were exercised into ordinary shares, for approximately $284,000.

Incorporation of Local Mexican Operator

On June 17, 2004 we incorporated a local Mexican operator and service provider, Pointer SA, jointly held by us and our Mexican local partners, 96.5% and 3.5% respectively. On January 25, 2005 we sold to our local partners 28.5% of our holdings in Pointer SA in consideration for its par value and thus we currently hold 68%. Pointer SA offers a broad scope of services, based on our technology and know-how relating to location based services, stolen vehicle retrieval and other value-added services targeting Mexican corporations. Pointer SA commenced operations in February 2005 and is currently in its development phase.

Renewal of Purchase Orders in Venezuela

In January 2004, the customer in Venezuela renewed its purchase orders after not having ordered from us for approximately two years. In 2004, this customer ordered over US $1 million worth of infrastructure equipment, spare parts and end units. However, due to continuous political and economical uncertainties in Venezuela, we cannot be sure of any further purchase orders from this customer and the timing of such.

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 Magistrates 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, and without our knowledge of the exact nature of the legal proceedings underway between the Bank and CEIEC, since we are not a party to these proceedings, based on our legal advisors opinion, we have a good defense against Bank Hapoalim s claim for indemnification.

In March, 2005 we filed a claim against CEIEC and a third party with the China International Economic and Trade Arbitration Commission in Beijing, China (CIETAC) for approximately $558,000 representing the damages caused to us by the breach of the contract between us, CEIEC and the third party pursuant to which contract, the guarantee mentioned in the paragraph above was given.

In June, 2005 CEIEC and the third party filed a counter claim with the CIETAC for repayment of $300,000 relating to the same transaction, plus weekly interest of 0.5% (compounded from February 2002). The counter claim relates to the same amount that CEIEC has claimed from Bank Hapoalim B.M pursuant to the guarantee discussed above. Based on our legal advisors opinion, we have a good defense against any claim of CEIEC and the third party.

Grant of Options to Employees

On June 1, 2004, our board of directors resolved to issue to our employees options to purchase approximately 2.2 million of our ordinary shares, pursuant to our 2003 Employee Share Option Plan, at an exercise price of 13.3 cents ($0.133) per share. 44% of the options granted to each employee shall vest on December 31, 2004. An additional 7% of the options granted to each employee shall vest at the end of each of eight consecutive quarters, ending December 31, 2006. The options are subject to the terms of the 2003 Employee Share Option Plan.

Investment in Property and Equipment

During the years 2004, 2003 and 2002, we had capital expenditures of $0.9 million, $1.1 million and $1.2 million, respectively, related mainly to the installment of equipment used by Tracsat, our subsidiary in Argentina and Pointer SA, our subsidiary in Mexico.

For a description of additional recent developments which have taken place since January 1, 2004, see Item 10 Information on the Company Material Contracts.

B. BUSINESS OVERVIEW

We are a service provider of a range of services to automobile owners and insurance companies, including road-side assistance, vehicle towing, stolen vehicle retrieval and other value added services. We provide our services, for the most part, in Israel, through our subsidiary, Shagrir (which recently acquired the assets and activities of Shagrir Towing Services), and in Argentina and Mexico through our subsidiaries Tracsat and Pointer SA respectively. In addition, we continue to develop and manufacture our location based information system the Nexusphere for the use of our subsidiaries and for marketing it to other third party local operators through which they provide location based and security services.

As a result of the implementation of our strategy, we currently provide the following range of services to automobile owners and insurance companies:

(i) Road-side assistance these services may include towing services which are provided in Israel either directly by us or using sub-contractors, mobile automobile repair services, vehicle replacement services, the sale of spare-parts or connecting the driver to other service providers.

(ii) Stolen vehicle services these include our vehicle replacement services and our vehicle retrieval services, which are based on the systems we use, develop and sell and through which, in co-operation with law enforcement and private security agencies, we prevent the cars from being stolen or retrieve them.

(iii) Value added services may include location through the internet and other location based services provided to the drivers contacting our call center.

We currently provide such services mainly in Israel and in addition, but to a lesser extent, in Argentina and Mexico through subsidiaries in each country: Tracsat (we currently hold approximately 86.5% of the issued share capital of Tracsat) and Pointer SA (we currently hold 68% of the issued share capital of Pointer SA), respectively.

In addition, there are currently other operators in Venezuela, Russia, China and Chile using our Nexusphere communication and location and system and technology, to which we continue to market our products, systems and technical support.

The Nexusphere Network

Our Nexusphere network is based on spread spectrum technology (SPSP) intended for wide area networks (WAN). Among the advantages of Nexusphere s utilization of the spread spectrum technology includes the following distinctive features: resistance to interference, overcoming of fading caused by multipath and highly sensitive receivers.

The architecture of our Nexusphere system allows easy integration with existing infrastructures, low-cost expansion, development of multiple applications, and access to the internet and public switched telephone network gateways, all of which provide the following advantages:

- high receiver sensitivity;
- longer transmission ranges;
- resistance to interference;
- high system reliability and flexible configuration; and
- cost-effectiveness in system design, implementation and operations.

The system is comprised of three major parts:

- End-units (RMU) a transceiver (RF modem with inputs and outputs) that is installed within a vehicle or may be installed at any remote object to be monitored or located. The end-unit s inputs are connected to sensors within the object, while through its outputs it can send commands (which it receives from the CCC) to the object.
- Base stations which are spread over the territory to be covered and are connected to existing communication infrastructure. Each base station is equipped with direction-finding array of antennae, which receive the end-unit s signal and measure the angle from which the signal arrived. These measurements, together with additional data received from the end-units, are then converted by the base station into digital information, and sent to the Command & Control Center.
- Command & Control Center (CCC) the heart of the system, which includes the databases, and other software to administer the operation. Among other things, the CCC collects the information sent to it from the base stations, calculates the end-unit s location and displays the data on various monitors. Commands can be down-linked to the RMU from the CCC through a commercial paging system.

The following are some of the available applications of Nexusphere:

- Stolen Vehicles Recovery (SVR) The Nexusphere system comprises unique features for SVR solutions, including (i) inclusion of communication & location (ii) concealed terminal (iii) resistance to jamming (iv) indoor positioning (v) alarm system adaptability (vi) remote command (vii) accuracy (viii) back-up power supply, and (ix) 24x7 redundant command and control center (CCC).
- Fleet Management & Telematics Nexusphere provides certain Fleet Management capabilities, which ensure that vehicles, and their merchandise, arrive when and where they are expected. The end-unit can connect to various sensors by RS-422 or RS-232 standards, or by discrete (on or off) wirelines. The sensors monitor various vehicle operating systems, and the end unit will report the results to the fleet owners and managers.

Wireless Remote Monitoring & Control Security and Industrial Applications The Nexusphere system offers a total remote monitoring and control solution. Connecting the end-units to remote generators, fire systems and home alarm systems provides a link to safety and security command & control centers that is difficult to jam or interfere with.

Assets Surveillance & Protection As part of our Nexusphere System, we were previously involved in developing applications to provide solutions in the field of Assets Surveillance & Protection (ASAP). ASAP is based on an end-unit, which is attached to the asset and a terrestrial communication & location system. ASAP systems are most commonly employed by transportation companies, insurance companies, manufacturers and users of assets and crude materials. ASAP systems can provide instant warning and location in the event of hazardous chemical leakage or road accidents. Nexus led a two-year project with a consortium of eight European companies, consisting of technology developers and transportation companies, which was established in December 2001 to develop and test an ASAP solution. The solution was tested in the third quarter of 2003 and demonstrated its advanced technologies over other alternatives.

A. Our Operations in Israel

As a result of our two acquisitions in Israel, our operation in Israel, Shagrir, is currently the most significant operation we have and is expected to account for the majority of our business and revenues in the foreseeable future. In Israel we currently provide all the range of our services, including road-side assistance, towing, stolen vehicle retrieval and other value added services.

Services and Operations

Road-side Assistance and Towing Services

Shagrir is the leader in Israel in providing road-side assistance and towing services. Shagrir provides services to approximately 700,000 subscribers throughout Israel and its fleet of vehicles includes approximately 120 service cars, mobile garages and towing vehicles, which are dispatched by the control center to the vehicle through a sophisticated management and monitoring software application, connected via remote terminals used in the service cars, mobile garages and towing vehicles.

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

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

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

Stolen Vehicle Retreival (SVR) Services and Value Added Services

Shagrir is a leading provider of SVR and value added services in Israel for automobile owners, including the provision of location based services for vehicles using our Nexusphere Network and other sophisticated systems for the protection and location of vehicles. Using sensors located in a vehicle our system may be alerted as to the progress of a theft by the transmission of information to our twenty-four hour manned command and control center. Once received by the center, the necessary steps to recover the vehicle are taken. Our value-added services also include the provision of a distress button, using which a person can alert our command and control center, which locates the vehicle and immediately sends the required service.

The system also allows for location of vehicles through the Internet, by inserting a personal code, at any given time.

Equipment, Subcontractors and Supplies

As of June 2005, Shagrir had 120 service cars, mobile garages and towing vehicles and a number of replacement vehicles which currently number approximately 100.

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

On average, approximately 70% of the road-side assistance and towing services are carried out by employees of Shagrir. During peak demand periods, Shagrir calls on the services of certain independent contractors who render road-side assistance and towing services on behalf of Shagrir. Shagrir has entered into agreements with these independent contractors. Independent contractors are also often used in the provision of services by Shagrir to isolated locations (in peak and non-peak periods).

Of the replacement vehicles held by Shagrir, on average 60% are rented from various rental companies in Israel. Shagrir purchases the spare parts it uses in the provision of road-side assistance from various suppliers in Israel.

Sales and Marketing

For the provision of its road-side assistance and towing services Shagrir sales and marketing team directs its sales and marketing efforts to promoting its subscriptions mainly to Israeli insurance companies, and to lesser extent fleet vehicle customers and private customers. Our SVR services are marketed primarily through vehicle importers and to a lesser extent fleet vehicle operators and private individuals. We employ an in house sales and marketing force and also direct the sale of our safety products and car units for installment to private customers, business customers and vehicle fleets either directly or through our network of approximately 60 authorized installers across Israel.

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

Patent and Licenses

We are not dependant on any patent or licenses which are material; to our business or profitability, with the exception of the licenses described below in Item 4. Government Regulations.

Government Regulations

Shagrir has the following licenses:

- a business license to render towing and retrieval/extrication services under the Control of Commodities and Services (Vehicle Towing and Extrication) Order, 5734-1974, which is valid until December 31, 2005;

a license for the operation of mobile garages under the Control of Commodities and Services (Vehicle Garages and Factories) Order, 5730-1970, which is valid until December 31, 2005; and

a license to rent self-drive vehicles under the Control of Commodities and Services (Tour Transport, Special Transport and Vehicle Rental) Order, 5745-1995, which is valid until December 31, 2005.

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

Competition

In Israel, our primary competitors are Europe Assistance Israel, Shlomo-SIXT and MEMSI, all of which mainly compete with us in providing road-side assistance and towing services although we currently are the leading road-side assistance and towing service provider in Israel. Ituran is our main direct competitor in the stolen vehicle retrieval services market.

Seasonality

The demand for road-side assistance, towing services and replacement vehicles is greatly influenced by weather conditions, with Shagrir usually receiving more service calls on winter and summer days and less service calls on spring and fall days.

Furthermore, the demand for replacement vehicle services is greatly influenced by the number of vehicles being stolen in Israel at a given time, with Shagrir receiving more calls for replacement vehicles where the number of vehicles being stolen in Israel is high.

The location based services market is not seasonal.

B. Our Operations in Argentina and Mexico

Our subsidiaries, Tracsat (we currently hold approximately 86.5% of the issued share capital of Tracsat) and Pointer SA (we currently hold 68% of the issued share capital of Pointer SA), currently provide mainly stolen vehicle retreival services in Argentina and Mexico respectively. Tracsat and Pointer SA, provide similar services based on our Nexusphere system as are provided by Shagrir.

In these territories, we operate the command and control center from which we dispatch external security forces employed by us to retrieve the stolen vehicles or provide assistance as required by the driver. Installations and de-installations of end units in the vehicles are done either by our in-house employees, or by subcontractors mainly in designated installation centers.

Sales and Marketing

In order to execute their sales and marketing initiatives, Tracsat and Pointer SA employ an in house sales and marketing force whose efforts are focused on sales and marketing to insurance companies, and vehicle owners, directly, or indirectly through vehicle distributors and vehicle financing corporations in their respective designated territories.

Patent and Licenses

Tracsat and Pointer SA are not dependant on any patent or licenses which are material to their business or profitability, with the exception of the licenses described elsewhere in Item 4. Government Regulations.

Government Regulations

Products that are based on our technology require the use of spread spectrum devices in the 800-1000 MHz band. The FCC first authorized the unlicensed use of spread spectrum devices in the 902 to 928 MHz band in 1985. As an incentive for the increased development of spread spectrum technology, the FCC subsequently amended its rules to allow the unlicensed use of higher power spread spectrum systems within the 902 to 928 MHz band than had originally been authorized for the ISM (industrial, scientific and medical) band. While the FCC has in the past encouraged the development of new spread spectrum devices for unlicensed services, there can be no assurance that the FCC will not require licensing at some time in the future for the ISM band.

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

Competition

Our primary competitors in the stolen vehicle retrieval services market in Argentina and Mexico are Lo-Jack and Ituran (in Argentina only).

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

Seasonality

Our business provided in Latin America is not materially seasonal.

C. <u>Our Operations in Russia, Venezuela, China and Chile</u>

We also sell our Nexusphere sub-systems and products to third party local operators primarily in Russia, Venezuela and to a lesser extent China and Chile, who, like our subsidiaries, Shagrir, Tracsat and Pointer SA, provide mainly stolen vehicle retrieval or other services using our Nexusphere system and technology.

The third party domestic operators are responsible for the commercialization of their services, which are based on our systems and products in their designated territories and in their licensed coverage area. They control the sales and marketing of the end user devices as well as services to their final customers according to their business focus and business plans. In order to provide these services our domestic operators purchased from us, and deployed, the CCC and sufficient base stations to cover their respective territories.

Our sales and marketing efforts in this respect are executed by our internal marketing and customer support employees, focusing on being attentive to needs of these customers, in order to provide them with the solutions they require.

Geographical breakdown of our revenues:

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

	2004		2003		2002	
	In thousands	**% of our total sales**	**In thousands**	**% of our total sales**	**In thousands**	**% of our total sales**
Israel	7,939	72.4	2,543	49.4	1,592	25.0
U.S.A					820	12.9
Latin America	2,641	24.1	2,392	46.4	3,833	60.3
Other	389	3.5	215	4.2	116	1.8
Total	**10,969**	**100**	**5,150**	**100**	**6,361**	**100**

C. ORGANIZATIONAL STRUCTURE

The legal and commercial name of our company is Nexus Telocation Systems Ltd. We were incorporated under the laws of the State of Israel in 1991 under the name Nexus Telecommunications Systems Ltd. In 1997 we changed our name to Nexus Telocation Systems Ltd.

The following is a list of our currently active subsidiaries and their countries of incorporation:

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Tracsat (1)	Argentina
Shagrir	Israel
Pointer SA (2)	Mexico

(1) We hold 86.45% of the issued and outstanding shares of Tracsat.
(2) We hold 68% of the issued and outstanding shares of Pointer SA.

D. PROPERTY, PLANTS AND EQUIPMENT

Our executive offices, research and development and laboratory facilities are located in Givatayim, Israel (a suburb of Tel Aviv). We currently lease approximately 609 square meters and our annual lease payments are approximately $80,000. Tracsat s offices and operations facility are located in Buenos Aires. Tracsat currently leases 1,053 square meters (including 333 square meters used by its installation center) with an annual lease payment of $61,000. Shagrir s offices and operations facility are located in Petach Tikva, Israel. Shagrir currently leases 600 square meters in Petach Tikva with monthly rental fees of $4250. The lease agreement for this Petach Tikva property was due to expire on July 13, 2005, but the parties to the agreement, agreed that the term be extended until terminated by six months advanced notice of such termination by either party. In addition: (i)on January 3, 2005, Shagrir entered into: (a) a lease agreement with Shagrir (1985) Ltd. pursuant to which Shagrir agreed to lease from Shagrir (1985) its Holon property (5,320 square meters) over a period of 2 years beginning February 28, 2005 (with an option to extend this term for an additional 2 years), in consideration for a monthly rental fee of $10,430; and (b) an agreement pursuant to which Shagrir purchased from Shagrir (1985) its Haifa property (2,100 square meters) for approximately $389,000; and (ii) in June 2005, a lease agreement for a certain Jerusalem, Israel property (approximately 606 square meters) with monthly rental fees of $2,800 was assigned to Shagrir. Pointer SA s offices and operations facility are located in Mexico City, Mexico. Pointer SA currently leases 480 square meters with an annual lease payment of $72,000. For further information, see Note 10c of our consolidated financial statements.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion and analysis should be read in conjunction with our consolidated audited financial statements and the notes thereto, included hereinafter in this annual report.

Overview

Until 2003, our business focused primarily on the development, manufacture and sale of location based services and stolen vehicle retrieval services. In April 2003, our management decided to strategically focus on providing a range of services to automobile owners and insurance companies.

Our new strategy was implemented through two acquisitions in Israel and the establishment of a subsidiary in Mexico.

In June 2004 we purchased all of the outstanding and issued share capital of Shagrir not already held by us. Shagrir was our local Israeli operator and service provider, which mainly provided stolen vehicle retrieval and other security value-added services mainly for vehicle owners through a communication network based on our technology.

In June 2004, we also incorporated a Mexican company, Pointer SA, to serve as our local Mexican operator and service provider, which would provide stolen vehicle retrieval and road-side assistance services for vehicle owners using a communication network based on our technology.

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

As a result of the implementation of our strategy, we currently provide a range of services to automobile owners and insurance companies.

As a result of the two acquisitions we made in Israel, Shagrir, is currently the most significant operation we have, and is expected to account for the majority of our business and revenues in the foreseeable future. In Israel we currently provide all the range of our services.

Critical Accounting Policies

The consolidated financial statements include Nexus and the accounts of our subsidiaries. Intercompany transactions and balances are eliminated in consolidation. Management is required, in certain instances, to use estimates and assumptions that affect the amounts reported in the consolidated financial statements and the notes thereto. The actual results could differ from those estimates. Our accounting policies are described in note 2 to the consolidated financial statements included herein at Item 18. A critical accounting policy is one that is both important to the portrayal of our financial condition and results of operations and requires management s most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The significant accounting policies and estimates, which we believe to be the most critical in understanding and evaluating our reported financial position and results of operations, include:

Revenue recognition

The Company and its subsidiaries generate revenues from subscriber fees, sales of systems and products and sales of Stolen Vehicle Recovery services. To a lesser extent revenues are also derived from technical support services and from royalties.

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

Subscriber fees are recognized over the term of the agreement.

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

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 applied to revenue arrangements entered into in fiscal periods beginning after June 15, 2003.

In applying EITF 00-21, separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single arrangement in considering whether there are one or more units of accounting. That presumption may be overcome if there is sufficient evidence to the contrary. EITF 00-21 also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement.

Certain agreements include a contractual obligation for installation of systems. When such installation is requested by the customer, the entire revenues are deferred until installation is performed.

We consider the sale of products and subscriber fees to be separate units of accounting.

Certain agreements include revenues from installation of products as well as revenues from sales of Stolen Vehicle Recovery services or subscriber fees that are considered to be one unit of accounting. In those cases revenues from installation are deferred and recognized over the estimated duration of the service contracts.

The Company is entitled to royalties from one of its customers, which are based on the number of the customer s subscribers. The royalties are recognized when such royalties are reported to the Company.

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

Accounts Receivable

We depend on a small number of customers located mainly in Israel and South America. If the creditworthiness or the financial strength of the customers were to decline, there could be an adverse effect on our operating results and cash flows. Should geopolitical situations change in the countries where our customers operate, there could be additional credit risks. In cases where our customer is the operator (not owned by us), we assess collectibility separately for such new customer and existing ones. For new customers, we required a down payment for the initial project including the infrastructure, technical services and the first batch of end-units. For existing customers, we assess the credit history for each customer on a case-by-case basis. We also investigate the financial capabilities of our customers by receiving on-going information on their business status. In certain cases we demand down payments and other financial instruments such as Letter of Credit as collaterals. However, we cannot be certain that our estimations will prove correct as to any one of our customers

In the normal course of business, we monitor the financial condition of our customers. Changes to these estimates are possible and could result in a material effect on our balance sheet and reported results of operations.

Inventory

Inventories are stated at the lower of cost or market value. Cost is determined using the moving average method. Inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and for market prices lower than cost.

Valuation of Long-Lived Assets, Intangibles and Goodwill:

Goodwill reflects the excess of the purchase price of the acquired subsidiary over the fair value of net assets acquired. Pursuant to FAS 142, Goodwill and Other Assets , goodwill is not amortized but rather tested for impairment at least annually. As of December 31, 2004, the Company has determined that no impairment with respect to goodwill exists.

Intangible assets consist of the acquired patents, customer list and brand name. 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 amortization cost.

Patents are amortized over an eight-year period.

The customer list is amortized over a five-year period. The brand name is amortized over a two-year period, two thirds in the first year, and one third in the second year.

The Company s long lived assets are reviewed for impairment in accordance with SFAS No.144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No.144) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment losses have been identified as of December 31, 2004.

Share based compensation

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which is a revision of SFAS 123. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123 permitted, but did not require share-based payments to employees to be recognized based on their fair values while SFAS 123(R) requires all share-based payments to employees to be recognized based on their fair values. SFAS 123(R) also revises, clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. We expect to adopt SFAS 123(R) on January 1, 2006.

SFAS 123(R) permits companies to adopt its requirements using one of the following two methods:

The modified prospective method, in which compensation cost is recognized commencing with the effective date (i) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (ii) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested at the effective date.

The modified retrospective method, which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123, for purposes of pro forma disclosures all prior periods presented.

As permitted by SFAS 123, we currently account for share-based payments to employees using APB 25, the intrinsic value method, and, as such, recognizes no compensation cost for employee stock options. Accordingly, the adoption of the SFAS 123(R) fair value method will have significant impact on our results of operations, although it will have no impact on the our overall financial position. The impact of the adoption of SFAS 123(R) cannot be predicted at this time, as it depends on levels of share-based payments for future grant. However, had we adopted SFAS 123(R) in prior periods, the impact of that Standard would have approximated the impact of SFAS 123, as described in the disclosure of the pro forma information above.

In March 2005, the SEC Staff issued Staff Accounting Bulletin No. 107 (SAB 107) to give guidance on implementation of SFAS 123(R).

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an Amendment of ARB No. 43, Chapter 4 (SFAS 151). SFAS 151 amends Accounting Research Bulletin (ARB) No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect that the adoption of SFAS 151 will have a material effect on its financial position or results of operations.

Significant Expenses

Cost of Revenues.

Cost of revenues consists primarily of salaries and employee benefits, subcontractors and consulting, raw materials and components, operational costs of our subsidiaries (including mainly system maintenance, end-units installation costs, system communications costs, security and recovery costs) and depreciation of fixed assets.

Research and Development Expenses.

Research and development expenses consist primarily of salaries and employee benefits, subcontractors and consulting, less grants and participation.

Selling & Marketing Expenses.

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

General and Administrative Expenses.

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

Amortization of deferred stock compensation.

The Company has elected to follow Accounting Principles Board Statement No. 25, Accounting for Stock Options Issued to Employees (APB No. 25) and FASB Interpretation No. 44 Accounting for Certain Transactions Involving Stock Compensation (FIN No. 44) in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of an employee stock option is equivalent to or above the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company adopted the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation transition and disclosure (SFAS No. 148), which amended certain provisions of SFAS 123 Accounting for Stock-Based Compensation (SFAS No. 123). The Company continues to apply the provisions of APB No. 25, in accounting for stock-based compensation.

Pro forma information regarding the Company s net income (loss) and net earnings (loss) per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by SFAS No. 123.

Amortization of intangible assets.

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

Financial Income (Expenses), Net.

Financial expenses consist mainly of bank charges and interest expenses, foreign currency translation adjustments, amortizations of compensation related to warrants issued to a bank and in 2003 also from one time cashless expense resulting from the induced conversion of a convertible debenture. Financial income consists of interest on short-term bank deposits.

Other Expenses, Net.

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

Selected Financial Data

We derived the following selected consolidated financial data presented below for each of the years ended December 31, 2002, 2003 and 2004 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, 2000 and 2001 have been derived from audited financial statements not included in this annual report.

Pursuant to the sale of all our holdings in NexusData, the assets, liabilities, operating results and cash flows attributed to NexusData have been deemed to be discontinued operations (see Note1d to our consolidated financial statements); accordingly, our comparative financial data has been reclassified for all periods presented in this annual report.

The financial data set forth below should be read in conjunction with our consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this annual report.

US Dollars in Thousands (except share and per share data)	2004	2003	2002	2001	2000
Statement of Income Data:					
Revenues, sales	5,594	2,774	5,196	12,375	6,035
Revenues, services	5,375	2,376	1,165	184	
Total Revenues	10,969	5,150	6,361	12,559	6,035
Cost of revenues, sales	5,666	2,099	3,528	9,355	4,498
Cost of revenues, services	1,876	2,075	948	1,333	
Total Cost of Revenues	7,542	4,174	4,476	10,688	4,498
Gross profit (loss)	3,427	976	1,885	1,871	1,537
Research and development costs, net	482	664	1,377	1,654	1,397
Selling, general and administrative expenses	4,475	1,964	3,315	4,961	3,774
Amortization of deferred stock based compensation	465	400			
Amortization of intangible assets	932	67	76	67	64
Operating loss	2,927	2,119	2,883	4,811	3,698
Financial expenses	758	1,105	266	209	221
Other income (expenses)	(42)	(32)	(440)	563	(13,526)
Loss from continuing operations before minority interest	3,727	3,256	3,589	4,457	17,445
Minority interest in losses of a subsidiary				191	
Loss from continuing operations	3,727	3,256	3,589	4,266	17,445
Gain (Loss) from discontinued operations		8,524	(4,000)	(5,204)	
Income (loss) before taxes on income	(3,727)	5,268	(7,589)	(9,470)	(20,508)
Income taxes	37				
Net income (loss)	(3,764)	5,268	(7,589)	(9,470)	(20,508)
Basic and diluted net earning (loss) per share from continuing operations	(0.03)	(0.04)	(0.32)	(0.42)	(2.37)
Basic and diluted net earning (loss) per share	(0.03)	0.06	(0.67)	(0.93)	(2.78)
Weighted average number of shares outstanding (in thousands)	145,747	85,567	11,289	10,162	7,369
Balance Sheet Data:					
Total assets	25,513	6,226	8,034	11,405	12,213
Net assets (liabilities) of continuing operations	7,086	(1,346)	(4,121)	165	66
Working capital (deficit)	(6,698)	(147)	(1,454)	(1,888)	537
Convertible debentures			1,020		2,500
Shareholders equity (deficiency)	7,086	(1,346)	(12,645)	(5,722)	(2,177)
Share capital	1,145	773	94	91	67
Additional paid-in capital	94,127	83,239	77,373	76,402	69,584

Operating Results

Twelve Months Ended December 31, 2004 Compared with Twelve Months Ended December 31, 2003

Revenues. Revenues sharply increased by $5.8 million, or 113%, from $5.2 million in 2003 to $11.0 million in 2004. The major increase in revenues in 2004 resulted from the consolidation of Shagrir s results in the second half of 2004 into our consolidated financial statements since we increased our holdings from approximately 14% to 100% at the end of June 2004. We expect in 2005 to consolidate Shagrir s results for the whole year and therefore to increase our revenues. To a lesser extent, although the economic situation in Venezuela remained unstable and the imposition of foreign currency restrictions also remained, revenues from our customer in Venezuela increased. This increase was nevertheless offset in part by the decrease in revenues of our SVR services in Argentina.

Cost of Revenues. Our cost of revenues increased to $7.5 million for the twelve months ended December 31, 2004 as compared to $4.2 million for the same period in 2003. This increase was associated mainly with the consolidation of Shagrir s results in the second half of 2004 into our consolidated financial statements as explained above. To a lesser extent, our cost of revenues increased due to increased volume of end unit sales mainly to our customer in Venezuela, which was partially offset by a decrease in cost of revenues of our SVR services in Argentina.

Gross Profit. Our gross profit increased by $2.4 million from $1.0 million in 2003 to $3.4 million in 2004, mainly as a result of the purchase of our former customer Shagrir, our service provider in Israel, which became our subsidiary.

Research and Development Costs. Net research and development expenses in 2004 decreased by $182,000 from $664,000 in 2003 to $482,000 in 2004 mainly as a result of focusing R&D on SVR and Mid-2003 cost reduction plan. In 2004 and in 2003, research and development expenses were net of $516,000 and $ 476,000 respectively of grants from the European Union for the Assets Surveillance And Protection project. Since the project was completed in October 2003, and final grants approval were delayed to the first half of 2004, we have received no further grants from the European Union and we do not expect to receive any grants in the foreseeable future.

Selling and Marketing Expenses. Selling and marketing costs increased by 156% to $1.6 million in 2004 from $621,000 in 2003. The major increase in 2004 resulted from the consolidation of Shagrir s results in the second half of 2004 into our consolidated financial statements since we increased our holdings from approximately 14% to 100% at the end of June 2004. We expect in 2005 to consolidate Shagrir s results for the whole year and therefore to increase our selling and marketing costs.

General and Administrative Expenses. General and administrative expenses increased by approximately 115% from $1.3 million in 2003 to $2.9 million in 2004. The major increase in 2004 resulted from the consolidation of Shagrir s results in the second half of 2004 into our consolidated financial statements since we increased our holdings from approximately 14% to 100% at the end of June 2004 and from an allowance for doubtful accounts of $ 326,000 of certain debt owed by one of our customers. We expect in 2005 to consolidate Shagrir s results for the whole year and therefore to increase our general and administrative expenses.

Amortization of deferred share option compensation. Amortization of deferred stock based compensation increased from $400,000 in 2003 to $465,000 in 2004 as a result of amortization of additional compensation provided in 2004 offset by reduced amortization of deferred share option compensation from 2003.

Amortization of intangible assets Amortization of intangible assets increased by $865,000 from $67,000 in 2003 to $932,000 in 2004 mainly due to additional intangible assets recorded in 2004 pursuant to the acquisition of Shagrir.

Operating Loss. As a result of the foregoing, our operating loss in 2004 increased to $2.9 million compared to an operating loss of $2.1 million in 2003.

Financial Expenses (Net). Financial expenses decreased from $1.1 in 2003 to $0.8 million in 2004 mainly due to the fact that in 2003, financial expenses included a one time cashless expense resulting from the induced conversion of a convertible debenture in the amount of $1 million, offset in part by the affect of the consolidation of Shagrir from the second half of 2004.

Net Income (Loss). In 2004, we had net loss of $3.8 million compared to a net income of $5.3 million in 2003. Our net income in the 2003 period was primarily the result of a one-time, non-cash capital gain of $8.5 million resulting from the sale in February 2003 of Nexus Data Inc., offset by $3.3 million loss from continuing operations.

Twelve Months Ended December 31, 2003 Compared with Twelve Months Ended December 31, 2002

Revenues. Revenues sharply decreased by $1.2 million, or 19%, from $6.3 million in 2002 to $5.1 million in 2003. The major decrease in revenues in 2003 resulted from the sharp decrease in end unit sale volume to our customer in Venezuela, which was offset in part by the increase in revenues of our SVR services in Argentina. The decrease in sales to our customer in Venezuela was mainly due the economic situation in Venezuela and the imposition of foreign currency restrictions.

Cost of Revenues. Our cost of revenues decreased to $4.2 million for the twelve months ended December 31, 2003 as compared to $4.5 million for the same period in 2002. This decrease is associated mainly with the decrease in our revenues from sales, which was partly offset by an increase in the cost of services due to the increased volume of revenues from services. As a percentage of revenues, cost of sales increased by 11% from 2002 to 2003 primarily due to the reduction in our revenues in 2003, which was not offset by a corresponding reduction in our overhead in this period.

Gross Profit. As a result of the decrease in our revenues in 2003 and our level of cost of revenues in 2003, our gross profit decreased by $909,000 from $1.9 million in the year of 2002 to $976,000 in 2003.

Research and Development Expenses. Net research and development expenses decreased by 52% to $664,000 in the year of 2003 from $1.4 million in 2002, mainly due to the reduction of approximately 33% in manpower and reduction in the average salary of R&D employees. In addition, in 2003, research and development expenses were net of $476,000 in grants from the European Community for the Assets Surveillance and Protection, or ASAP project as compared to $520,000 in 2002. The ASAP project was completed in October 2003.

Selling and Marketing Expenses. Selling and marketing expenses decreased by 44% to $621,000 in the year 2003 from $1.1 million in 2002. The decrease was mainly due to decreased commission expenses, which resulted from the decrease in revenues and the execution of a cost reduction plan, including the reduction of labor costs.

General and Administrative Expenses. General and administrative expenses decreased by approximately 39% from $2.2 million in 2002 to $1.3 million in 2003, mainly due to a $531,000 charge that we recorded with respect to doubtful debts recorded in 2002 and a decrease in labor costs and other expenses which resulted from the execution of a cost reduction plan in 2003.

Operating Loss. As a result of the foregoing, our operating loss in 2003 decreased to $2.1 million compared to an operating loss of $2.9 million in 2002, which included the $400,000 amortization of deferred stock compensation in 2003.

Financial Expenses (Net). In 2003, financial expenses included a one time cashless expense resulting from the induced conversion of a convertible debenture in the amount of $1 million, which was the main cause of the increase in net financial expenses from $266,000 in 2002 to $1.1 million, in 2003. The increase was offset in part by the increase in foreign currency translation adjustments.

Net Income (Loss). In 2003, we had net income of $5.3 million compared to a net loss of $7.6 million in 2002. Our net income in the 2003 period was primarily the result of a one-time, non-cash capital gain of $8.5 million resulting from the sale in February 2003 of Nexus Data Inc., offset by $3.3 million loss from continuing operations as a result of the foregoing, as compared to a $4 million loss from NexusData Inc. and a $3.6 million loss from continuing operations in 2002.

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

Our results of operations, liabilities and assets were mainly influenced by the fluctuations of exchange rates between the US dollar, the New Israeli Shekel (NIS) and the Argentine Peso. For a discussion regarding the functional and reporting currency of each of our subsidiaries see Note 2c to our financial reports.

Due to the two acquisitions we made in Israel, we expect that our business in Israel will account in the foreseeable future for the majority of our business and revenues. The business in Israel, especially the activities acquired from Shagrir Towing Sevices are mainly denominated in NIS.

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

We believe that inflation in Israel and fluctuations in the U.S. dollar NIS exchange rate may have some effects on our business, and our net income. Salaries of our employees in Israel are paid in New Israeli Shekels. These salary payments constitute the main portion of the costs of our operations in Israel. During 2004, the dollar value of these salaries decreased as a result of a reduction in average salaries in NIS terms, which, however, was partly offset by the effect of the depreciation of the US dollar against the Israeli shekel.

The exchange rate has fluctuated during 2004 from a high of NIS 4.634 to the dollar to a low of NIS 4.308 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	HIGH	LOW
	1 U.S. dollar =	1 U.S. dollar =
December 2004	4.374	4.308
January 2005	4.414	4.308
February 2005	4.392	4.357
March 2005	4.379	4.299
April 2005	4.395	4.36
May 2005	4.416	4.348

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
January 1, 2000 December 31, 2000	4.0683 NIS/$1
January 1, 2001 December 31, 2001	4.2195 NIS/$1
January 1, 2002 December 31, 2002	4.7363 NIS/$1
January 1, 2003 December 31, 2003	4.5124 NIS/$1
January 1, 2004 December 31, 2004	4.4833 NIS/$1

In 2000, the rate of inflation was approximately 0% and the devaluation rate was 2.7%. In 2001, the rate of inflation was about 1.4% and the NIS was devalued against the dollar by 9.3%. In 2002, the rate of inflation was about 6.5% and the NIS was devalued against the dollar by 7.3%. In 2003, the Israeli economy recorded negative inflation of approximately 1.9% where the U.S. dollar devalued against the NIS by approximately 7.6%. In 2004, the Israeli economy recorded inflation of approximately 1.2% where the U.S. dollar devalued against the NIS by approximately 1.6%. As a result of the differential between the rate of deflation and the rate of valuation of the NIS, we experienced increases and decreases in the costs of our Israel operations, as expressed in U.S. dollars, in 2004, but they did not materially affect our results of operations in such periods.

Regarding our operation in Argentina, the fact that most of Tracsat s revenues are not denominated in US dollars, we believe that inflation in Argentina and fluctuations in the U.S. dollar Argentinian Peso exchange rate may have a significant effect on the business and overall profitability of Tracsat and as a consequence, on the results of our operations. In 2002, a severe and rapid currency devaluation in Argentina adversely affected Tracsat s US dollar results. This was mainly due to Tracsat s inability to increase its Argentinian Peso-denominated prices to its customers, while its major costs of inventory and infrastructure were denominated in US dollars. In 2004, the U.S. dollar Argentinian Peso exchange rate fluctuated between 2.92 and 2.98 Pesos to the dollar. From January 1, 2004 to December 31, 2004, the value of the Argentinian Peso increased by approximately 2.02% against the US dollar. This increase had no material effect on our business during 2004.

We are not presently engaged in any hedging or other transactions intended to manage the risks relating to foreign currency exchange rate or interest rate fluctuations. However, we may in the future undertake such transactions if management determines that such is necessary to offset such risks.

Governmental and Fiscal Policies which May Affect Our Business

Argentina s ongoing debt crisis since 2001 has caused the government to implement fiscal and monetary policies, making it extremely difficult to receive credit from the banks. This policy may also contribute to the volatility of the exchange rate of the US dollar against the Argentinian Peso. Additionally, the growing success of law enforcement programs in Argentina has reduced the rate of car theft and may continue to adversely affect our business.

In Venezuela, the prevailing foreign currency restrictions imposed by the Venezuelan government and the economic political situation in Venezuela, which caused our Venezuelan customer to cease its orders from us in the past, continue to be implemented. Such continuously implemented policies and the continuous political and economical uncertainties in Venezuela may continue to affect the success of our operations in Venezuela in the future.

B. LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, we had a negative working capital of $6.7 million, our current assets to current liabilities ratio was 0.47:1, we had cash and cash equivalents of $75,000 and unused credit facility of $432,000.

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

In April 2003, DBSI Investments Ltd. acquired a controlling stake in our company pursuant to a share purchase agreement with us from March 2003. The 2003 share purchase agreement with DBSI and certain other investors provided for additional investments in our company through October 2003. Pursuant to such agreement, DBSI and the other investors who invested in our company following the closing of the share purchase agreement in April 2003, invested approximately $3.82 million. In consideration for their investment they acquired 86,804,542 ordinary shares and warrants to purchase 60,763,184 ordinary shares at a purchase price of $0.044 per share. Each investor was issued a warrant to purchase seven ordinary shares for every 10 shares purchased under the agreement.

Pursuant to our agreement with DBSI, AMS converted $723,000 of convertible debentures issued to it, and we repaid AMS an amount of $300,000.

As of December 31, 2004, we had a long-term credit facility for approximately $6.16 million, of which $3 million was a five-year long-term loan for the period beginning April 2003, $1.2 million were two four-year long-term loans for the period beginning October 2003, $0.74 million was a four and half year long-term loan for the period beginning December 2004 and a $0.9 million of two year and three months loan for the period beginning May 2004,$0.15 million was a two and a half year loan for the period beginning January 2003, and a $0.15 loan with no determined maturity date.

As of December 31, 2004, we had a short term credit facility for approximately $5.89 million of which $4.56 million with Bank Hapoalim and $0.9 million with Bank Mizrahi, $0.432 million of the short term credit facility remains as of December 31, 2004 available for our use.

In 2004, net cash provided by our continuing operating activities amounted to $0.094 million as compared to net cash used in continuing operating activities of $2.13 million in 2003. In 2004, net cash used in our continuing investing activities was $0.8 million as compared to $1.04 million net cash used in our continuing investing activities in 2003. In 2004, net cash provided by financing activities was $0.079 million as compared to $3.798 million provided by continuing financing activities in 2003. Current liabilities increased from $3.88 million in 2003 to $12.6 million at December 31, 2004, mainly due to a increase of short-term bank credit and current maturities of long-term loans and increase in trade payables balance influenced by Shagrir s financial statements consolidated for the first time

Long-term liabilities increased from $3.691 million in December 31, 2003 to $5.829 million in December 31, 2004 mainly due to increase in long term loan included in Shagrir s financial statements consolidated for the first time.

We anticipate that the impact of the two acquisitions we made in Israel will have a positive impact on our cashflow from our operating activities, which will be offset by a negative impact on our cashflow used in financing activities. However we cannot assure, that any such net positive cashflows, if any, will sufficiently cover negative cashflows expected to be used for our newly operative Mexican subsidiary, Pointer SA and for the significant operating expenses, which we expect to incur in connection with the development and marketing of our systems and products, as well as increased investments in the deployment of our existing and new networks in different geographical regions around the world.

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

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

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

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

C. RESEARCH AND DEVELOPMENT

We invest a significant amount of our resources on our internal research and development operations. We believe that continued and timely development of new applications and products and enhancements to our existing systems and products are necessary to compete effectively. We devote a significant portion of our resources (i) to developing new applications and products to better compete in a rapidly evolving market, (ii) sustaining and upgrading existing products by improving serviceability and adding new capabilities and features, (iii) to decreasing the cost of owning and operating such products, and (iv) to maintaining close relationships with our customers to identify their product needs.

Future growth will depend upon our ability to enhance our existing products and to introduce new products on a timely basis. Since we commenced operations we have conducted extensive research and development activities and we continue to improve our Nexusphere network. Our net expenditures for research and development programs during the years ended December 31, 2004 and December 31, 2003, totaled approximately $ 0.482 million and $0.664 million, respectively. We expect that we will continue to commit substantial resources to research and development in the future. As of June, 2005, the Company employed 9 persons in research and development. Our gross research and development expenses constituted approximately 9.1% and 22.1% of our revenues, and our net research and development expenses constituted approximately 4.4% and 12.9% of such sales, in the respective years ended December 31, 2004 and 2003. For additional information concerning commitments for research development programs See Note 10 to our financial statements included elsewhere in this annual report.

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

We also received funding for certain research and development expenses relating to our joint venture with API from the Israel-United States Bi-national Industrial Research and Development Foundation, or BIRD Foundation. Royalties from sales to the BIRD Foundation amount to 150% of the grant received. As of December 31, 2004, our contingent obligation to the BIRD Foundation was $2.024 million.

During 2004 through to May 2005 we upgraded the database utilized by our Nexusphere system, introduced a significantly smaller remote mobile unit, which can be compatible with a GPS system for anti-theft and fleet-management applications concurrently and enhanced our base station receiver for the Nexusphere with expanded applications. In addition, we are presently conducting other major research and development projects such as:

q Improved location algorithm, which will enable sparser deployment of base stations.

q Long-life RMU for applications that do not provide power such as parcel tracking.

q Enhanced IMU with significantly higher payload per message using turbo product coding.

There can be no assurance that any of our developmental efforts will result in commercially successful products, that such products will be released in a timely manner or at all, or that we will be able to respond effectively to technological changes or new product announcements by others.

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

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

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

Our proprietary technology also includes software. Much of the software algorithms are also included and claimed in the patent and issued patent applications for Nexusphere communications technology. Although software protection is currently available in the United States, there can be no assurance that the software patents will continue to be the subject of patent protection in the United States. Also, foreign patent protection for software is generally afforded lesser protection than in the United States.

We also protect our trademarks and service marks in the United States through federal registration of key trademark names and reliance on common law trademark protection for other trade names. One United States federal trademark is registered, but there can be no assurance that the United States federal trademark will not at some future date be opposed by other trademark holders.

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.

We now operate predominantly in Israel and Latin America. Our focus for the establishment of new operations continues to be Latin America. In Israel, in June 2004 we acquired our primary customer and operator in Israel, Shagrir, which expanded our operations and increased our revenues in Israel. The transaction reflected our policy not only to serve as a technology company but also as an operator, providing operating services to the general public. Our consolidated financial statements include the results of Shagrir from the second half of 2004. In addition, on February 28, 2005 pursuant to an Asset Purchase Agreement, we completed the purchase of certain of the activities and assets of Shagrir Towing Services by our subsidiary, Shagrir, which will further expand our operations and increase our revenues in Israel.

Our Argentinian subsidiary, Tracsat, has been negatively affected by economic and political instability in Argentina and from the reduction in car theft rates mainly associated with success of law enforcement programs.

Due to continuous political and economical uncertainties in Venezuela, we cannot be sure whether we will receive any further purchase orders from our customer in Venezuela or when such orders may arrive.

In February 2005, our subsidiary, Pointer SA, commenced operations in Greater Mexico City. Since Pointer SA s operations are in the development phase, we, together with Pointer SA s other shareholders (we currently hold 68% of the issued and outstanding shares of Pointer SA), will need to provide it with financing until it has sufficient cash flows to run its operations.

Our financial results for the period ended December 31, 2004, do not yet fully reflect our financial condition. In 2005 and thereafter, we expect that, as a result of our diversification into a service provider that provides a broad range of services to automobile owners and the insurance industry, our revenue channels will change significantly and our revenues will increase substantially.

E. OFF-BALANCE SHEET ARRANGEMENTS

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

F. CONTRACTUAL OBLIGATIONS

Contractual Obligations December 31, 2004 (in thousands USD)		**Total**	**Less than 1 Year**	**1 3 Years**	**3 5 Years**	**More than 5 Years**
Short term debt and other current liabilities	1	12,598	12,598			
Long-term loans	2	4,892	222	4,574	96	
Accrued severance pay, net	3	506				506
Management fees to DBSI	4	240	180	60		
Operating lease obligations	5	1,058	593	465		
Purchase Obligations		248	192	55		
Royalties to BIRD	6	2,024				
Total contractual obligations		21,566	13,785	5,154	96	506

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[1] Short term debt and other current liabilities include short term bank credits, trade accounts payable for equipment and services that have already been supplied and other accrued expenses.
[2] Long term loans include principal and interest payments in accordance with the terms of the agreements with Banks. For further information please see item 5B liquidity and capital resources.
[3] Accrued severance pay maturity depends on the date our employees will actually cease being employed. The amount is net of outstanding severance pay funds.
[4] The Company shall pay annual fees $180,000 in consideration for DBSI management services for the period of three years commencing April 2003 such commitment do not include any automatic renewal of the agreement with DBSI.
[5] Operating lease obligations include rental payments of offices, cars, and other premises and equipment.
[6] Royalties to BIRD include the amount received by BIRD foundation indexed as per the agreement, which the Company has undertaken to pay based on sales of a specific product. The Company does not anticipate selling this product and therefore, does not anticipate paying these contingent royalties (See Note 10b 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:

Name	Age	Position with Company
Yossi Ben Shalom	49	Chairman of Board of Directors
Danny Stern	53	President and CEO
Alicia Rotbard	59	External Director
Gov Ben Ami	78	External Director
Barak Dotan	37	Director
Ken Lalo	47	Director
Yoel Rosenthal	50	Director
Opher Linchevski	36	Director
Hanoch Yokev	57	Vice President, R&D and Chief Technology Officer
Ronen Stein	38	Vice President and Chief Financial Officer
Zvika Weber	44	Vice President, Business Development and Marketing

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

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

Alicia Rotbard has served as a director on our Board since 2002. In 1989 she founded DOORS Informations Systems, Inc. and served as its CEO until 2002. From 1989 she served as President and CEO of Quality Computers Ltd. From 1980 to 1985 she served as Deputy General Manager of the Tel-Aviv Stock Exchange, managing its Computer Department and Operations. Ms. Rotbard holds a B.Sc. in Mathematics and Physics from the Hebrew University, Jerusalem.

Gov Ben Ami was appointed as a director on the Board of Nexus in 2002. He also serves on the Board of the Kanfei Zahav Fund, the National Kibbutz Fund and the Technion s Research and Development Organization. From 1990 to 1993 he served in the Presidency of the Industrial Union. From 1990 to 1992 he served as a special consultant to the Minister of Industry and Trade on the subject of the European Common Market. From 1987 to 1988 he served as General Manager of the Ministry of Communication and he also served on the Board of Directors of Bezeq at this time. Mr. Gov. has served on various boards of directors of publicly traded companies as well as industrial companies. Mr Gov holds a B.Sc in Mechanical and Industrial Engineering from the Technion in Haifa as well as an MBA degree.

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

Ken Lalo was appointed a director on our Board in April 2003. Mr. Lalo is the Executive Vice Chairman of Nipson SAS and Chairman of its US, UK and German subsidiaries. From 2001, he served as Vice President, Koonras Technologies Ltd., an investment company controlled by Polar Investments Ltd. and also as a member of the Boards of Directors of various affiliates of Koonras, including publicly traded and private companies. From 1993 until 2001, he served as Vice President and General Counsel, Clal Industries and Investments Ltd. and as a member of the Boards of Directors of various affiliates of Clal, including publicly traded and private companies. Mr Lalo holds an LL.B. from Tel-Aviv University, an M.C.L (Master of Comparative Law) degree from Georgetown University and an M.B.A from Northwestern University/Tel-Aviv University.

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

Opher Linchevski was appointed a director on our Board in February 2005. Mr Linchevski is the CFO of Egged Cooperative Society for Transportation in Israel Ltd. (Egged). Since 2004 he has served as CEO of Egged Holdings Ltd., a wholly owned subsidiary of Egged, a company involved in the light rail project in Jerusalem, the light rail tender for Tel Aviv, and additional public transportation activities outside of Israel; Mr. Linchevski is a member of the Board of Directors of various subsidiaries of Egged. During 2001 Mr. Linchevski served as a director of the Board of Directors, a member of the financial committee and a member of the hedging committee of Zim Israel Navigation Company Ltd.. From 1998 until 2001 Mr. Linchevski served as manager of the transport unit in the Israeli Ministry of Finance (budgets). Mr. Linchevski holds an LL.B., a B.A. in economics and an M.B.A. all from the Hebrew University.

***Hanoch Yokev*,** one of our founders, has served as our Senior Vice President and Chief Technology Officer and as a director since our inception in 1991. From 1979 to 1991, he worked with Elisra, a subsidiary of Tadiran. At Elisra, he served as a System Engineer in connection with the development of several electronic warfare systems. His last position at Elisra was Chief Scientist. Mr. Yokev holds a Bachelor of Science degree in Physics from Tel Aviv University.

Ronen Stein was appointed our Chief Financial Officer in July 2002, one month after joining Nexus From 1998 until 2002, Mr. Stein worked with Rada Electronic Industries (Nasdaq: RADIF). He was appointed the Chief Financial Officer of Rada in 1999 and served as its Chief Financial Officer until May 2002. Mr. Stein holds a B.Sc. in economics and accounting and an M.B.A from Tel Aviv University.

Zvika Weber was appointed our Vice-President of Business Development in April 2003. From February 1991 until April 2003, he served as Logistics Business Director at Nexus. From 1996 to December 2001, Mr. Weber served as Director of Product Management at Nice Systems Ltd. From 1980 to 1996, he served as a Major in the Israeli Air Force. Mr. Weber holds a Practical Engineering degree and B.A. in History of the Middle East and Geography from Bar Ilan University in Israel.

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, 2004, was approximately $0.371 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) and other fringe benefits commonly reimbursed or paid by companies in Israel, but excluding amounts set aside or accrued to provide pension, retirement or similar benefits, which amounted to $0.056 million.

In addition, during 2004 a total of 1 million options were granted to all persons as a group who served in the capacity of director or executive officer, at an exercise price of $0.133, pursuant to our 2003 Option Plan.

C. BOARD PRACTICES

Our Articles of Association provide for a Board of Directors of not less than two nor more than eight members. Pursuant to the DBSI investment, our board will consist of seven directors, four of which will be appointed by 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. The Israeli Companies Law which entered into effect on February 1, 2000 and was amended most recently in March 2005, requires the board of directors of a public company to determine the number of directors who shall possess accounting and financial expertise. This requirement is subject to promulgation of regulations by the Israeli Minister of Justice. Such regulations have not yet been published.

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

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

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

A person shall be qualified to serve as an outside director only if he or she possesses accounting and financial expertise or professional qualifications. At least one outside director must posses accounting and financial expertise. The conditions and criteria for possessing accounting and financial expertise or professional qualifications are to be determined in regulations promulgated by the Israeli Minister of Justice in consultation with the Israeli Securities Authority. These regulations have not yet been published. No person may serve as an outside 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 outside director or may otherwise interfere with the person s ability to serve as an outside director. If, at the time outside directors are to be appointed, all current members of the board of directors are of the same gender, then at least one outside director must be of the other gender.

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

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

The initial term of an outside director is three years and may be extended for one additional term of three years. Outside 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 outside 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. Outside directors may also be removed by an Israeli court if they are found guilty of bribery, fraud, administrative offenses in a company or use of inside information. Each committee of a company s board of directors must include at least one outside director.

Ms. Alicia Rotbard and Mr. Gov Ben Ami have been serving as our outside directors since July 9, 2002.

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

Currently, Mr. Ken Lalo and our two outside directors, Ms. Alicia Rotbard and Mr. Gov Ben Ami, serve as members of our audit committee.

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

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 (excluding NexusData employees) at the end of each of the last three years:

	Israel	Other	Total
2004			
Sales and Marketing	58 (*)	11	69
Administration	19	8	27
Research and Development	11		11
Other	49 (**)	24	73
Total	137	43	180

(*) Represents 42 positions
(**) Represents 44 positions

	Israel	Other	Total
2003			
Sales and Marketing	2	7	9
Administration	7	5	12
Research and Development	11	0	11
Other	9	19	28
Total	**29**	**31**	**60**

	Israel	U.S.A.	Other	Total
2002				
Sales and Marketing	2	1	2	5
Administration	7	0	3	10
Research and Development	17	0	0	17
Other	12	0	10	22
Total	**38**	**1**	**15**	**54**

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

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

E. SHARE OWNERSHIP

Some of our directors and officers own ordinary shares in our company and/or options to purchase ordinary shares. As of June, 2005, none of our directors and officers, beneficially owned shares and/or options amounting to 1% or more of the outstanding Ordinary Shares, excluding Messers. Barak Dotan and Yossi Ben Shalom, who, as office holders of DBSI, may be considered to be the beneficial holders of the 39.68% of our issued share capital held by DBSI, and an additional 22.43% of our issued share capital held by Egged, as a result of certain joint voting rights between Egged and DBSI, pursuant to a shareholders agreement between them. For further information regarding the shareholders agreement between Egged and DBSI, see Item 10 Additional Information Material Contracts.

For information concerning option grants to our directors and officers, see as incorporated by reference in this Item 6 above and Item 7: Major Shareholders and Related Party Transactions below.

Employee Share Option Plans

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

For a description of the Shareholders Agreement between our major shareholders, see Item 10 **Material Contracts**.

The following table and notes thereto set forth certain information as of June 27, 2005 concerning the beneficial ownership (as defined in Rule 13d 3 under the Securities Exchange Act of 1934) of ordinary shares by each person or entity who, to the best of our knowledge, beneficially owned more than 5% of our outstanding ordinary shares. The voting rights of our major shareholders do not differ from the voting rights of holders of all of our ordinary shares.

Name of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent of Shares Beneficially Owned
DBSI Investment Ltd. (2)(3)	114,978,356(4)	39.66%
Polar Communications Ltd.	21,019,724(5)	8.32%
Clal Information Technologies Ltd.	17,744,277(6)(7)	7.05%
Egged Holdings Ltd.	62,154,669(8)(9)	22.43%
Pelephone Communications Ltd	16,527,549(10)	6.55%
M. Vertheim (Holdings) Ltd.	18,553,794(11)	6.79%
Bank Hapoalim BM	14,622,012(12)	5.71%
Menora	14,523,810(13)	5.84%
Shagrir Motor Vehicle Systems Ltd.	25,000,000(14)	9.23%

(1) The number of ordinary shares issued and outstanding on June 9, 2005 was 245,891,084. 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. 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, except as described below.

(2) Until June 2004, DBSI Investment Ltd. held a proxy with respect to all of the voting power in the Company held by AMS Electronics Ltd. This proxy was terminated. Does not include the shares held by Egged and covered by the November 16, 2004, Shareholders Agreement between DBSI and Egged. For further information regarding such Agreement see Item 10 Additional Information Material Contracts.

(3) As office holders of DBSI, Messrs. Barak Dotan and Yossi Ben Shalom may be considered to be the beneficial holders of the 39.68% of our issued share capital held by DBSI.

(4) Includes 43,982,685 ordinary shares issuable upon the exercise of a currently exercisable warrant.

(5) Includes 6,611,964 ordinary shares issuable upon the exercise of a currently exercisable warrant.

(6) Includes 5,909,419 ordinary shares issuable upon the exercise of a currently exercisable warrant.

(7) Clal is an Israeli corporation controlled by IDB Development Corporation Ltd. (IDBD), which, in turn, is controlled by IDB Holding Corporation (IDBH). These companies hold an additional 1,449,043 shares of our issued share capital as follows: IDBD (225,867 shares) and Clal Industries and Investments Ltd. (CII) a majority-owned subsidiary of IDBD (1,223,176 shares). CII, IDBD and IDBH are all Israeli corporations whose shares are publicly traded on The Tel Aviv Stock Exchange.

(8) Includes 24,392,765 ordinary shares issuable upon the conversion of loans.

(9) Does not include the shares held by DBSI and covered by the November 16, 2004, Shareholders Agreement between Egged and DBSI. For further information regarding such Agreement see Item 10 Additional Information Material Contracts.

(10) Includes 6,609,219 ordinary shares issuable upon the exercise of a currently exercisable warrant.

(11) Includes 6,095,878 ordinary shares issuable upon the exercise of a currently exercisable warrant.

(12) Includes 10,000,000 ordinary shares issuable upon the exercise of a currently exercisable warrant.

(13) Includes 2,619,048 ordinary shares issuable upon the exercise of a currently exercisable warrant.

(14) Includes 25,000,000 ordinary shares issuable upon the exercise of a currently exercisable warrant.

Changes in the percentages of ownership held by our various shareholder during the past three years were primarily results of investments during these years, the conversion of debentures in March 2003 and our acquisition of Shagrir in 2004. For further information regarding such investments and acquisition see Item 4. Recent and Investments and Divestitures.

B. RELATED PARTY TRANSACTIONS

For information on the funding for and purchase of the assets and activities of Shagrir Towing Services and the $6 million investment in our securities, see Item 10 **Material Contracts**

Agreements with Mr. Offer Lior and his affiliates

In March 13, 2005, we entered into a joinder agreement with an individual, Mr. Ofer Lior pursuant to which in consideration for $69,735 we issued Mr. Lior (i) 830,179 of our ordinary shares at a price per share of $0.084 and (ii) a warrant to purchase up to 182,639 or our ordinary shares at the same exercise price, constituting approximately 0.22% of our current issued and outstanding share capital on a fully-diluted basis. This warrant is exercisable by Mr. Lior until the earlier of: (a) April 6, 2006; or (b) our merger or the acquisition of substantially all of our assets.

In February 2005 we entered into a Management Agreement pursuant to which Dekalog Focused Management Ltd., or Dekalog, shall provide Chief Executive Officer services to Shagrir. In consideration for the provision of such services, Dekalog is to receive, NIS 115,000 (plus VAT) per month and an annual bonus equal to the higher of: (a) NIS 800,000; or (b) 2.5% of the consolidated profits of Shagrir, before tax, plus VAT.

In February 2005 we entered into an Employment Agreement pursuant to which, Mr. Ofer Lior shall provide services to Nexus. In consideration for the provision of such services, Mr. Lior is to be granted an option to purchase 1,753 ordinary shares of Shagrir (representing, at the date of issuance, 3.5% of the issued and outstanding share capital of Shagrir), at an exercise price of $280,000 (as adjusted in accordance with the terms of the agreement). This option shall be exercisable in full after 48 months of continuous service, with 50% of the option vesting after the first 24-month period of continuous services and 25% of the option vesting after each 12-month period of continuous service thereafter.

Agreements with Shagrir

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

In February 2005 we consummated a loan consolidation agreement with Shagrir the terms and conditions of which govern NIS 24,525,000 in previous loans made by us to Shagrir. Interest repayments and repayments of the principal will commence on February 28, 2007, with NIS 800,000 payable annually on account of the interest and NIS 200,000 payable annually on account of the principal. Interest under the loan is payable at a rate of 4% per year.

In February 2005 we consummated a loan agreement with Shagrir pursuant to which we loaned Shagrir NIS 3,916,536 in connection with certain infrastructure and equipment expenses. Interest repayments and repayments of the principal shall be repaid on a pro rata basis with the loans of Shagrir with its other shareholders, following the repayment of the $2 million convertible loan made from Egged Holdings Ltd. in connection with Shagrir s purchase of certain of the assets and activities of Shagrir Towing Services. Interest under the loan is payable at a rate of 4% per year.

In February 2005, together with Gandyr Investments Ltd., Govli Ltd., Sulam Financial Holdings and Egged Holdings Ltd., we consummated a NIS 10 million loan agreement with Shagrir, of which we loaned Shagrir NIS 5 million. Interest repayments and repayments of the principal will commence on August 28, 2005. Interest under the loan is payable at a rate of 6.5% per year.

In February 2005, we invested directly into Shagrir NIS 4,550,000 ($1 million), in consideration for 27,918 ordinary shares of Shagrir.

Sale of NexusData

In February 2003, we completed the sale of all of our holdings in NexusData to Storm International, which subsequently assigned all of its rights and obligations to Nexus LLC. Mr. Yaron Sheinman, the former Chairman of our Board of Directors, is one of the members of Nexus LLC, and took part in the sale transaction. This transaction was ratified by our audit committee, Board of Directors and shareholders in accordance with the laws of the State of Israel.

Agreements with AMS.

In January 2002, we entered into a major manufacturing agreement with our main manufacturer, AMS, for the manufacture of a significant portion of our end units and those of NexusData, minimally valued at $36 million. This agreement was amended such that we were released from our undertaking to issue purchase orders to AMS minimally valued at $36 million and have committed to make purchases of our end units from AMS amounting to at least $10 million over the course of a four-year period, provided that there is actual demand for these products from our customers. In addition, we will not be liable for any liabilities of NexusData under this agreement and in no event shall a claim be made by AMS against us relating to NexusData s liabilities. AMS was also granted exclusivity and/or right of first refusal rights in connection with its manufacture of our products.

In March 2003, pursuant to the DBSI investment agreement, we reached an agreement with AMS, such that AMS converted approximately $723,000 (a sum including interest accrued thereon), out of a convertible debenture purchased by us at a price equal to the price paid in the DBSI investment round of financing, namely $0.044, into 16,435,500 ordinary shares. 600,000 of these shares were held in trust and have been released to AMS. We also repaid AMS $300,000 out of the convertible debenture that was purchased by AMS following the closing of the DBSI investment financing round.

Management Agreement with DBSI Investments Ltd.

Pursuant to the share purchase agreement with DBSI Investments Ltd., we entered a management services agreement with DBSI in April 2003. Pursuant to the management agreement, DBSI will provide us with management services with respect to our business for a period of three years, in consideration for a management fee of $180,000 per annum for a period of three years commencing April 2003, to be paid in equal quarterly installments of $45,000. At the end of the initial three-year term, and each subsequent term thereafter, the agreement will be automatically renewed for additional 12 month terms unless terminated by either of the parties.

Additional investments in our company by DBSI, our former CEO and other investors.

Pursuant to the share purchase agreement of March 13, 2003, DBSI and other investors invested approximately $2.6 million in the share capital of the Company. Furthermore, in September and October 2003, DBSI, Mr. Arik Avni the Company s former Chief Executive Officer (the Former CEO) and certain other minority shareholders (the Investors) invested an aggregate of $1.2 million in the share capital of the Company, under the same terms and conditions set forth in the share purchase agreement of March 13, 2003. The amounts invested were as follows: DBSI invested an aggregate amount of $2,600,000, in consideration for which it was issued 59,090,909 shares and 41,363,636 warrants exercisable at a price of $0.044 per share, the Former CEO invested an aggregate amount of $44,000, in consideration for which it was issued 1,000,000 shares and 700,000 warrants exercisable at a price of $0.044 per share, and the Investors invested an aggregate amount of $201,400 in consideration for which they were issued 26,713,633 of our ordinary shares and 18,699,548warrants exercisable at a price of $0.044 per share. In February 2005, DBSI invested a further $1 million in the share capital of the Company, in consideration for which it was issued 11,904,762 shares and 2,619,048 warrants exercisable at a price of $0.084 per share. DBSI currently owns approximately 25.38% (on a fully diluted basis), of our issued and outstanding shares.

Cooperation and Share Exchange Agreements with Shagrir

On February 25, 2004, we entered into a cooperation agreement with Shagrir, the operator of our system in Israel. As part of this agreement Shagrir renewed its commitment to purchase exclusively from us end units for its stolen vehicle retrieval system. Shagrir undertook to purchase in 2004 end-units in an amount of $2.3 million and during the following three years, in a minimum amount of $4.2 million. We undertook to expand Shagrir s infrastructure network. The term of the agreement is until the end of year 2007.

Subsequently, on April 25, 2004, we entered into an agreement with the shareholders of Shagrir, to purchase 100% of the issued share capital of Shagrir. Upon completion of the agreement on June 27, 2004, we purchased all the outstanding shares and options to purchase shares of Shagrir, excluding a number of options held by its employees, which were converted into options of our company, constituting, at the date of conversion, an aggregate of 2.5% of our share capital on a fully diluted basis. Pursuant to the Agreement, we transferred a number of our ordinary shares and warrants with an aggregate value equal to, at the date of transfer, approximately 26% of our issued share capital on a fully diluted basis, post transaction. For information regarding our agreements with Shagrir see Item 4 Recent Developments.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

Legal Proceedings

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 Magistrates 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, and without our knowledge of the exact nature of the legal proceedings underway between the bank and CEIEC, since we are not a party to these proceedings, based on our legal advisors opinion, we have defense claims rejecting any possible demands by Bank Hapoalim for indemnification.

In March, 2005 we filed a claim against CEIEC and a third party with the China International Economic and Trade Arbitration Commission in Beijing, China (CIETAC) for approximately $558,000 representing the damages caused to us by the breach of the contract between us, CEIEC and the third party pursuant to which contract, the guarantee mentioned in the paragraph above was given.

In June, 2005 CEIEC and the third party filed a counter claim with the CIETAC for repayment of $300,000 relating to the same transaction, plus weekly interest of 0.5% (compounded from February 2002). The counter claim relates to the same amount that CEIEC has claimed from Bank Hapoalim B.M pursuant to the guarantee discussed above. Based on our legal advisors opinion, have a good defense against any claim of CEIEC and the third party.

In September 2000, Tracsat entered into a 30-month contract with a third party. Pursuant to the contract Tracsat agreed to order from the third party a minimum number of unit installations. In October 2001 and thereafter, Tracsat ceased to make minimum payments to the third party. A legal demand was presented against Tracsat. A provision amounting to $148,000 was recorded in our financials, representing management s estimate of expenses that might occur as a result of this demand based on its attorney s advice. In October 2003 and August 2004, the Argentinean court ordered a levy in the aggregate amount of $114,000 on a bank account. During 2002, 2003 and 2004, several claims were filed against Shagrir by customers. The claims are in an amount aggregating to approximately $371,000. The substance of the claims is the malfunction of Shagrir s products, which occurred during the ordinary course of business. Management, based on the opinion of its attorneys, is of the opinion that no material costs will arise in respect to these claims and, therefore, no provision was recorded in the financial statements in respect of the claims.

During May 2002, Shagrir filed a claim against one of its customers in the amount of approximately $70,000 in respect of the breach of an agreement reached between the parties. The defendant filed a counterclaim in the amount of approximately $93,000, claiming that Shagrir breached the aforesaid agreement. Management, based on the opinion of its attorneys, is of the opinion that no material costs will arise in respect of this counterclaim and, therefore, no provision was recorded in the financial statements in respect of the counterclaim.

On January 20, 2004, a lawsuit in the amount of $162,000 was filed against Shagrir and two additional defendants, alleging that a truck, in which a tracking system was installed, was stolen and was not tracked. The Court dismissed Shagrir from this lawsuit. On September 9, 2004, we received a third party notice from one of the additional defendants, seeking indemnification or compensation from Shagrir if the Court determines that it must pay compensation to the plaintiff in respect of the truck s theft.

Management, based on the opinion of its attorneys, is of the opinion that no material costs will arise to Shagrir in respect of these claims and, therefore, no provision was recorded in the financial statements in respect of these claims.

B. SIGNIFICANT CHANGES

For a description of significant events, which took place since the year ending December 31, 2004, see as incorporated by reference in Item 4. Information on the Company Recent Developments above.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Markets and Share Price History

Between June 1994 and April 1997, and commencing again on October 31, 1997 until August 2002, our Ordinary Shares were quoted on Nasdaq under the symbol NXUS. Between April 17, 1997, and October 30, 1997, and commencing again as of August 2002 the OTC Bulletin Board reported trading in the Ordinary Shares under the symbol NXUS and later changed to NXUSF. The table below sets forth the high and low bid prices of our Ordinary Shares, as reported by Nasdaq or the OTC Bulletin Board during the indicated periods.

Period	High	Low
May 2005	0.13	0.10
April 2005	0.14	0.11
March 2005	0.142	0.125
February 2005	0.167	0.135
January 2005	0.21	0.122
December 2004	0.14	0.09
Forth Quarter 2004	0.14	0.085
Third Quarter 2004	0.17	0.115
Second Quarter 2004	0.4	0.14
First Quarter 2004	0.58	0.2
Fourth Quarter 2003	0.335	0.14
Third Quarter 2003	0.26	0.135
Second Quarter 2003	0.28	0.13
First Quarter 2003	0.24	0.065
2004	0.58	0.085
2003	0.335	0.065
2002	2.35	0.008
2001	4.689	1.375
2000	13.44	0.50

As of June 9, 2005, there were 92 record holders of Ordinary Shares, including 43 record holders in the United States (who held 55,132,321of our outstanding Ordinary Shares).

B. PLAN OF DISTRIBUTION

Not applicable

C. MARKETS

Our shares are listed for trade on the Over-The-Counter Bulletin Board under the symbol NXUSF .

D. SELLING SHAREHOLDERS

Not applicable

E. DILUTION

Not applicable

F. EXPENSES OF THE ISSUE

Not applicable

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

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

Articles of Association; Israeli Companies Law

Articles of Association

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

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

We have currently outstanding only one class of securities. Pursuant to a one-for-three reverse stock split of our ordinary shares, effective as of April 2001, each three shares of our old Ordinary Shares with a par value of NIS 0.01 each were converted into one Ordinary Share with a par value of NIS 0.03 per share. Accordingly, all shares and per share data in this annual report have been retroactively adjusted to reflect the reverse stock split. No preferred shares are currently authorized.

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

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

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

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

The Israeli Companies Law

The Israeli Companies Law, as amended most recently in March 2005, codifies the fiduciary duties that office holders, including directors and executive officers, owe to a company. An office holder, is defined in the Israeli Companies Law, as a (i) director, (ii) general manager, (iii) chief business manager, (iv) deputy general manager, (v) vice general manager, (vi) another manager directly subordinate to the managing director or (vii) any other person assuming the responsibilities of any of the forgoing positions without regard to such person s title.

The Israeli Companies Law requires that an office holder of a company promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction, as defined under Israeli law, the office holder must also disclose any personal interest held by the office holder s spouse, siblings, parents, grandparents, descendants, spouse s descendants and the spouses of any of the foregoing, or by any corporation in which the office holder is a 5% or greater shareholder, holder of 5% or more of the voting power, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company s profitability, assets or liabilities.

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

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

(a) all of the directors are permitted to vote on the matter and attend the meeting in which the matter is considered; and

(b) the matter requires approval of the shareholders at a general meeting.

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

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

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

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

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

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

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

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

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

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

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

- any amendment to the Articles of Association;
- an increase of the company s authorized share capital;
- a merger; or
- approval of interested party transactions that require shareholder approval.

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

Provisions Restricting Change in Control of Our Company

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

The Companies Law provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if th