

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

FORM 20-F

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
OR
☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number: 001-33668

SUPERCOM LTD.

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

Israel

(Jurisdiction of incorporation or organization)

**1Arie Shenkar Street
Hertzliya Pituach 4672514, Israel**
(Address of principal executive offices)

**Arie Trabelsi, Chief Executive Officer
SuperCom Ltd.**

**1Arie Shenkar Street
Hertzliya Pituach 4672514, Israel
+972-9-8890850 (phone); +972-9-8890820 (fax)**
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class
Ordinary Shares, NIS 0.25 Par Value

Name of each exchange on which registered
NASDAQ Capital Market

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, par value NIS 0.25 per share: 14,958,339 (as of December 31, 2017)

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Emerging growth company ☐

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

[†] The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. GAAP ☒

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

Other ☐

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

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

This annual report on Form 20-F is incorporated by reference into the registrant’s Registration Statements on Form S-8, File No. 333-175785 and 333-121231.

INTRODUCTION

Founded in 1988, we are a global provider of traditional and digital identity solutions, advanced IoT and connectivity solutions, and cyber security products and solutions, to governments and private and public organizations throughout the world.

We are comprised of three main Strategic Business Units(SBU) : e-Gov, IoT and Connectivity, and Cyber Security:

e-Gov

Through our proprietary e-Government platforms and innovative solutions for traditional and biometrics enrollment, personalization, issuance and border control services, we have helped governments and national agencies design and issue secured multi-identification, or Multi-ID, documents and robust digital identity solutions to their citizens , visitors and Lands.

We have focused on expanding our activities in the traditional identification, or ID, and electronic identification, or e-Gov, market, including the design, development and marketing of identification technologies and solutions to governments in Europe, Asia, America and Africa using our e-Government platforms. Our activities include: (i) utilizing paper secured by different levels of security patterns (UV, holograms, etc.); and (ii) electronic identification secured by biometric data, principally in connection with the issuance of national Multi-ID documents (IDs, passports, driver's licenses, vehicle permits, and visas, Secure Land Certificated) border control applications and Land Information System(LIS) .

On December 26, 2013 we acquired the SmartID division of On Track Innovations Ltd., or OTI, including all contracts, software, other related technologies and intellectual property, or IP, assets. The SmartID division has a strong international presence, with a broad range of competitive and well-known e-Gov solutions and technology. The acquisition significantly expanded the breadth of our e-Gov capabilities globally, while providing us with outstanding market and technological experts, together with leading ID software platforms and technologies.

IoT and Connectivity

Our IoT products and solutions reliably identify, track and monitor people or objects in real time, enabling our customers to detect unauthorized movement of people, vehicles and other monitored objects. We provide all-in-one field-proven IoT suite, accompanied with services specifically tailored to meet the requirements of an IoT solutions. Our proprietary IoT suite of hybrid hardware, connectivity and software components are the foundation of these solutions and services. Our IoT division has primarily focused on growing the following markets: (i) public safety; (ii) healthcare and homecare; (iii) Smart Cities (iv) Smart Campus and (iv) transportation.

During 2006, we identified the growing electronic tracking and monitoring vertical markets for public safety, real time healthcare and homecare, and transportation management. We have developed the PureRF Hybrid suit of wrist devices, connectivity, and controlling software, from 2012 we have developed the next generation IoT suite of devices, connectivity and Monitoring software; the PureSecurity Hybrid Suite of wrist band, tags, beacons, PureCom, Pure Monitors, PureTrack and other components.

On January 1, 2016 we acquired Leaders in Community Alternatives, Inc., or LCA. LCA is a California based, private criminal justice organization, providing community-based services and electronic monitoring programs to government agencies in the U.S. for more than 25 years. LCA offers a broad range of competitive solutions for governmental institutions across the U.S. in addressing realignment strategies and plans.

Connectivity, In 2016, as part of our strategy to enhance and broaden our IoT connectivity products and solutions offerings for public safety, enterprises, hospitality and smart cities markets, on May 18, 2016, we acquired Alvarion Technologies Ltd., or Alvarion. Alvarion designs solutions for carrier wi-fi, enterprise connectivity, smart city, smart hospitality, connected campuses and connected events that are both complete and heterogeneous to ensure ease-of-use and optimize operational efficiency. Carriers, local governments and hospitality sectors worldwide deploy Alvarion's intelligent wi-fi networks to enhance productivity and performance, as well as its legacy backhaul services and products.

Secure Financial Solutions (SFS), During 2014, we identified the secure financial services market as a very fast growing market where we believe that SuperCom has major advantages due to synergic technologies and shared customer base to our other divisions. Since 2014, we have developed and introduced secure financial services suite of products, the SuperPay™. We offer advanced secure mobile payments ranging from mobile wallet to mobile point of sale (POS) using a set of components and platforms to enable secure mobile payments and financial services.

On April 18, 2016, we acquired the Powapos business, a division of POWA Technologies Ltd., the developer of a fully-integrated mobile and tablet-based system integrating industry-leading retail and secure payment solutions into one simplified, attractive and innovative POS platform. Powapos has been deployed in countries all over the world, and has been integrated by cloud-based POS software providers, we believes this technology will be a highly value-added solution to our secure payment customers around the world.

Cyber Security

During 2015, we identified the cyber security market as a very fast growing market where we believe that SuperCom has major advantages due to synergic technologies and shared customer base to our e-Gov, IoT and connectivity SBUs. In 2015, we acquired Prevision Ltd., or Prevision, a company with a strong presence in the market and a broad range of competitive and well-known cyber security services. During the first quarter of 2016, we acquired Safend Ltd, or Safend, an international provider of cutting edge endpoint data protection guarding against corporate data loss and theft through content discovery and inspection, encryption methodologies, and comprehensive device and port control. Safend maps sensitive information and controls data flow through email, web, external devices and additional channels.

Both acquisitions significantly expanded the breadth of our cyber security capabilities globally, while providing us with outstanding market and technological experts and over 3,000 customers in the United States, Europe, and Asia, and more than three million software license seats deployed by multinational enterprises, government agencies and small to mid-size companies around the globe, together with leading data and cyber security platforms and technologies.

Statements made in this Annual Report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any previous filing with the Securities and Exchange Commission, or the SEC, you may read the document itself for a complete recitation of its terms.

In this Annual Report, all references to “SuperCom,” the “Company,” “we,” “us” or “our” are to SuperCom Ltd., a company organized under the laws of the State of Israel, and its subsidiaries. On January 24, 2013 we changed our name back to SuperCom Ltd., our original name, from Vuanice Ltd.

In this Annual Report, unless otherwise specified or unless the context otherwise requires, all references to “\$” or “dollars” are to U.S. dollars and all references to “NIS” are to New Israeli Shekels. Except as otherwise indicated, the financial statements of and information regarding SuperCom are presented in U.S. dollars in accordance with generally acceptable accounting principles in the United States (“US GAAP”). The representative rate exchange rate between the NIS and the dollar as published by the Bank of Israel and effective on December 31, 2017, was NIS 3.467 per \$1.00.

This Annual Report contains various “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, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. Statements which use the terms “anticipate,” “believe,” “expect,” “plan,” “intend,” “estimate” and similar expressions are intended to identify forward looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof. We have attempted to identify significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section that appears in Item 3D “Key Information - Risk Factors.”

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data as of the dates and for each of the periods indicated. The selected consolidated financial data set forth below should be read in conjunction with and is qualified entirely by reference to “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and notes thereto included elsewhere in this Annual Report.

The following summary consolidated financial data for and as of the five years ended December 31, 2017 are derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our audited consolidated financial statements for the three years ended December 31, 2017 and as of December 31, 2016 and 2017 appear elsewhere in this Annual Report. Our selected consolidated financial data as of December 31, 2013, 2014 and 2015 and for the years ended December 31, 2014 and 2015 have been derived from audited consolidated financial statements not included in this Annual Report other than the change in the manner of how the Company presents deferred income taxes as per ASU 2015-17 for which the Company has adjusted current and long-term deferred income tax classification. All share and per share data has been adjusted to give effect to a 1 share for 4.250002 shares reverse stock split that was effected on August 23, 2013.

Income Statement Data:

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(U.S. dollars in thousands, except per share data)				
Summary of Statement of Operations Data:					
Revenues	33,264	20,025	28,340	29,703	8,822
Cost of revenues	20,351	17,461	10,446	7,301	1,896
Gross profit	12,913	2,564	17,894	22,402	6,926
Operating expenses:					
Research and development	7,238	6,718	3,669	3,359	564
Selling and marketing	8,099	9,970	6,611	7,036	3,158
General and administrative	6,113	7,277	3,947	2,773	1,183
Other (income) expenses	(2,021)	713	2,174	1,225	507
Gain on bargain acquisitions	-	(10,515)	-	-	-
Total operating expenses	19,429	14,163	16,401	14,393	5,412
Operating income (loss)	(6,516)	(11,599)	1,493	8,009	1,514
Financial income (expenses), net	(538)	(303)	(277)	(133)	(156)
Income (loss) before income tax	(7,054)	(11,902)	1,216	7,876	1,358
Income tax (expense) benefit	393	(2,091)	(197)	(1,675)	5,108
Net income (loss)	(6,661)	(13,993)	1,019	6,201	6,466
Per Share Data:					
Basic earnings per share	(0.45)	(0.93)	0.07	0.46	0.71
Diluted earnings per share	(0.45)	(0.93)	0.07	0.45	0.70

	2017	2016	2015	2014	2013
		(U.S. dollars in thousands, except per share data)			
Summary of Balance Sheet Data:					
Cash and cash equivalents	1,037	1,708	22,246	4,789	2,673
Total Current Assets	27,413	21,120	45,443	24,416	9,926
TOTAL ASSETS	54,198	53,473	65,942	42,874	31,279
Total Current Liabilities	17,960	12,771	10,238	12,666	8,129
Total Long-term Liabilities	3,531	1,978	1,272	1,902	3,758
SHAREHOLDERS' EQUITY	32,707	38,724	54,432	28,306	19,392

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. You should consider carefully the risks described below, together with the financial and other information contained in this prospectus, before you decide to invest in our ordinary shares. If any of the following risks actually occurs, our business, financial condition and results of operations could suffer. In that case, the trading price of our ordinary shares would likely decline and you might lose all or part of your investment.

Risks Related to Our Business

Although we expect that the acquisitions of the SmartID division of OTI, Prevision, LCA, Safend, Alvarion and Powapos will result in benefits to us, we may not realize those benefits due to unforeseen difficulties.

Although we are 4 years into the process of integrating the operations of the SmartID division of OTI, and over 22 months into the process of integrating the operations of Prevision, LCA, Safend, Alvarion and Powapos, realizing any of the anticipated benefits of these acquisitions, including anticipated cost savings and additional revenue opportunities, involves a number of challenges. The failure to meet these integration challenges could seriously harm our results of operations, and the market price of our ordinary shares may decline as a result.

Realizing the benefits of these acquisitions will depend in part on the integration of our intellectual property, products, operations, personnel and sales force and the completion of assignments of current and past contracts and rights. These integration activities are complex and time - consuming, and we may encounter unexpected difficulties or incur unexpected costs, including:

- our inability to achieve the operating synergies anticipated in the acquisition, which would prevent us from achieving the positive earnings gains expected as a result of the acquisition;
- diversion of management attention from ongoing business concerns to integration matters;
- difficulties in consolidating and rationalizing information technology and intellectual property platforms and administrative infrastructures;
- complexities associated with managing the combined businesses;
- difficulties in integrating personnel;
- possible termination of some contracts or agreements with customers of the acquired divisions and entities as a result of the acquisitions, which would result in major reduction in our anticipated combined business revenue;
- possible termination of some contracts or agreements with service providers and suppliers of the acquired divisions and entities as a result of the acquisitions, which could result in delays and increases in our cost of revenues; and
- Possible cash flow interruption or loss of revenue as a result of the change of ownership.

In addition, Safend, Alvarion, and Powapos were acquired on an “as is” basis from a bankruptcy administrator or trustee with limited representations, which limits our recourse against the sellers of the acquired businesses after closing, which in turn may expose us to unexpected material losses or expenses after the closing. Our diligence investigations with respect to the acquired businesses were very limited, which may also expose us to unexpected material losses or expenses after the closing. The relationship with most of the customers and suppliers of the acquired businesses have been severed or compromised, and there is no assurance that we will be able to recover such customers and suppliers. As a result, we may decide to discontinue the operation of one or more of the acquired businesses.

We may not fully realize the anticipated net reductions in costs and expenses and other benefits and synergies of these acquisitions to the extent, or in the timeframe, anticipated. In addition to the integration risks discussed above, our ability to realize these benefits and synergies could be adversely impacted by practical or legal constraints on our ability to combine operations.

If we are unable to manage our growth profitably, our business, financial results and stock price could suffer.

Our future financial results will depend in part on our ability to profitably manage our growth. Management will need to maintain existing customers and attract new customers, recruit, retain and effectively manage employees, as well as expand operations and integrate customer support and financial control systems. If integration - related expenses and capital expenditure requirements are greater than anticipated or if we are unable to manage our growth profitably after the acquisition, our financial results and the market price of our ordinary shares may decline.

Purchase price allocation in connection with our acquisition of OTI’s SmartID division, Safend, Alvarion and Prevision requires estimates, which may be subject to change in the future. Future changes to these estimates could impact our future operating results.

The application of purchase price allocation requires that the total purchase price we paid for the SmartID division of OTI, Safend, Alvarion and Prevision be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date. All amounts in excess of or below the fair value are recorded as goodwill or extraordinary profit, as applicable. The allocation process requires an analysis and valuation of acquired assets, including fixed assets, technologies, intellectual properties, deferred tax assets, customer contracts and relationships, trade names and liabilities assumed, including contractual commitments and legal contingencies. We identified and recorded the assets, including specifically identifiable intangible assets, and liabilities assumed in connection with the acquisitions of the SmartID division, Safend, Alvarion and Prevision at their respective estimated fair values as of the date of the acquisition. This process requires estimates by our management and by our expert independent consultant based upon the best available information at the time of the preparation of the financial statements. We have completed the purchase price allocation as reflected in this report. Any future changes to our estimates of the fair value of the assets and liabilities of OTI’s SmartID division, Safend, Alvarion and Prevision, respectively, as of the date of the acquisition could impact our future operating results.

In the three years ended December 31, 2017, we depended on orders from large customers for a substantial portion of our revenues. The loss of all or any of these customers or a decrease in their orders could adversely impact our operating results.

In the year ended December 31, 2017, 50% of our consolidated net revenue is attributable to sales to five large customers.

In the years ended December 31, 2016 and 2015, 32% and 94%, respectively, of our consolidated net revenue was attributable to sales to four and six large customers, respectively. While we expect to be less dependent on these customers in 2018 and in the future because of our expectation to secure more contracts from new customers, a substantial reduction in sales to, or loss of, any of the five customers would adversely affect our business unless we were able to replace the revenue received from those customers, which replacement we may not be able to find.

Because competition in our industry is intense, our business, operating results and financial condition may be adversely affected.

The global markets for our IoT and connectivity, e-Gov, and Cyber Security solutions are highly fragmented and intensely competitive. They are characterized by rapidly changing technology, frequent new product introductions and rapidly changing customer requirements. We expect competition to increase as the industry grows and as IoT, e-Gov, and Cyber Security, are adopted by public and private sectors around the world, we may not be able to compete successfully against current or future competitors. We face competition from technologically sophisticated companies, many of which have substantially greater technical, financial, and marketing resources than we do. In some cases, we compete with entities that have pre-existing relationships with potential customers. As the markets in which our IoT, e-Gov, and Cyber Security, compete expand, we expect additional competitors to enter the market. We cannot ensure that we will be able to maintain the quality of our products relative to those of our competitors or continue to develop and market new products effectively. Continued competitive pressures could cause us to lose significant market share.

Some of our competitors and potential competitors have larger technical staffs, larger customer bases, more established distribution channels, greater brand recognition and greater financial, marketing and other resources than we do. Our competitors may be able to develop products and services that (i) are superior to our products and services, (ii) achieve greater customer acceptance or (iii) have significantly improved functionality as compared to our existing and future products and services. In addition, our competitors may be able to negotiate strategic relationships on more favorable terms than we are able to negotiate. Many of our competitors may also have well-established relationships with our existing and prospective customers. Increased competition may result in our experiencing reduced margins, loss of sales or decreased market share.

The average selling prices for our products and solutions may decline as a result of competitive pricing pressures, promotional programs and customers who negotiate price reductions in exchange for longer-term purchase commitments. The pricing of products and solutions depends on the specific features and functions of the products, purchase volumes and the level of sales and service support required. As we experience pricing pressure, the average selling prices and gross margins for our products and solutions may decrease over product lifecycles. These same competitive pressures may require us to write down the carrying value of any inventory on hand, which could adversely affect our operating results and earnings per share.

Furthermore, most contracts with governments or with state or public agencies or municipalities or large enterprises are awarded through a competitive bidding process, and some of the business that we expect to seek in the future will likely be subject to a competitive bidding process. Competitive bidding presents a number of risks, including:

- the frequent need to compete against companies or teams of companies with more financial and marketing resources and more experience than we have in bidding on and performing major contracts;
- the need to compete against companies or teams of companies that may be long-term, entrenched incumbents for a particular contract we are competing for and which have, as a result, greater domain expertise and established customer relations;
- the substantial cost and managerial time and effort necessary to prepare bids and proposals for contracts that may not be awarded to us;
- the need to accurately estimate the resources and cost structure that will be required to service any fixed-price contract that we are awarded; and
- the expense and delay that may arise if our competitors protest or challenge new contract awards made to us pursuant to competitive bidding or subsequent contract modifications, and the risk that any of these protests or challenges could result in the resubmission of bids on modified specifications, or in termination, reduction or modification of the awarded contract.

We may not be afforded the opportunity in the future to bid on contracts that are held by other companies and are scheduled to expire, if the governments, or the applicable state or local agency or municipality determines to extend the existing contract. If we are unable to win particular contracts that are awarded through the competitive bidding process, we may not be able to operate in the market for the products and services that are provided under those contracts for a number of years. If we are unable to win new contract awards or retain those contracts, if any, that we are awarded over any extended period, our business, prospects, financial condition and results of operations will be adversely affected.

Any acquisitions that we have completed, or may complete in the future, may not perform as planned and could disrupt our business and harm our financial condition and operations.

In an effort to effectively compete in the IoT and connectivity, cyber security, and e-Gov products and services business, we have sought to acquire complementary businesses in the past and we may continue to do so in the future. In the event of any future acquisitions, we could:

- issue additional securities that would dilute our current shareholders' percentage ownership;
- incur debt and assume liabilities; and
- incur large and immediate write-offs of intangible assets, accounts receivable or other assets.

These events could result in significant expenses and decreased revenue, which could adversely affect the market price of our ordinary shares. In addition, integrating product and service acquisitions and completing any future acquisitions involve numerous operational and financial risks. These risks include difficulty in assimilating acquired operations, diversion of management's attention, and the potential loss of key employees or customers of acquired operations. Furthermore, companies acquired by us may not generate financial results consistent with our management's plans at the time of acquisition.

Although we had profitable operations in five of the last seven years ended December 31, 2017, if we do not generate sufficient cash from operations, we will be required to obtain additional financing or reduce our level of expenditure. Such financing may not be available in the future, or, if available, may not be on terms favorable to us.

Disruptions, uncertainty or volatility in the capital and credit markets may limit our access to capital required to operate our business. Such market conditions may also limit our ability to raise additional capital to support business growth. If we are unable to obtain necessary additional financing or generate cash from operations, we may be required to reduce the scope of our operations and may need to implement certain operational changes to decrease our expenses. This would have the potential to decrease both our ability to attain profitability and our financial flexibility. If adequate funds are not available to us, our business, and results of operations and financial condition will be adversely affected.

The market for our products is characterized by changing technology, requirements, standards and products, and we may be adversely affected if we do not respond promptly and effectively to these changes.

The market for our products is characterized by evolving technologies, changing industry standards, changing regulatory environments, frequent new product introductions and rapid changes in customer requirements. The introduction of products embodying new technologies and the emergence of new industry standards and practices can render existing products obsolete and unmarketable. Our future success will depend on our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products and product features that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of our customers. In the future:

- we may not be successful in developing and marketing new products or product features that respond to technological change or evolving industry standards;
- we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products and features; or
- our new products and product features may not adequately meet the requirements of the marketplace and achieve market acceptance.

If we are unable to respond promptly and effectively to changing technologies and market requirements, we will be unable to compete effectively in the future.

There can be no assurance that we will successfully identify new product opportunities and develop and bring new products to market in a timely manner, or that the products and technologies developed by others will not render our products or technologies obsolete or noncompetitive. The failure of our new product development efforts could have a material adverse effect on our business, results of operations and future growth.

We have sought in the past and will seek in the future to enter into contracts with governments, as well as state and local governmental agencies and municipalities, which subjects us to certain risks.

Governmental contracts subject us to several other risks, including risks associated with public budgetary restrictions and uncertainties, actual contracts that are less than awarded contract amounts, and cancellation at any time at the option of the governmental agency. Governments may also be in a position to obtain greater rights with respect to our intellectual property than we would grant to other entities. In addition, governmental agencies have the power, based on financial difficulties or investigations of their contractors, to deem contractors unsuitable for new contract awards. Because we engage in the government contracting business, we are subject to audits, and may be subject to investigation, by governmental entities.

Any failure to comply with the terms of any governmental contracts could result in substantial civil and criminal fines and penalties, as well as suspension from future contracts for a significant period of time, any of which could adversely affect our business by requiring us to pay significant fines and penalties or prevent us from earning revenues from governmental contracts during the suspension period. Cancellation of any one of our major governmental contracts could have a material adverse effect on our financial condition.

Our dependence on third-party representatives, resellers and distributors could result in marketing and distribution delays, which would prevent us from generating sales revenues.

We market and sell some of our products and solutions using a network of representatives, resellers and distributors covering the Americas, Europe, Asia and Africa. We establish relationships with such persons through agreements that provide for the marketing and support of our systems and products. These agreements generally do not grant exclusivity to the representative, resellers or distributors, and some of them are not long-term contracts, do not have commitments for minimum sales, and could be terminated by the representative, reseller or distributor. We do not have agreements with all of our representatives, resellers and distributors. We are currently engaged in discussions with additional potential representatives, resellers or distributors. Such arrangements may never be finalized and, if finalized, such arrangements may not increase our revenues or profitability.

Our ability to terminate a representative, reseller or distributor who is not performing satisfactorily may be limited. Inadequate performance by a representative, reseller or distributor could adversely affect our ability to develop markets in the regions for which such person is responsible and could result in substantially greater expenditures by us in order to develop such markets. Our operating results are highly dependent upon: (i) our ability to maintain our existing representative, reseller and distributor arrangements; (ii) our ability to establish and maintain coverage of major geographic areas and establish access to customers and markets; and (iii) the ability of our representatives, resellers and distributors to successfully market our products. A failure to achieve these objectives could result in lower revenues.

If our technology and solutions cease to be adopted and used by government and public and private organizations, we may lose some of our existing customers and our operations will be negatively affected.

Our ability to grow depends significantly on whether governmental and public and private organizations adopt our technology and solutions as part of their new standards and whether we are able to leverage our expertise with government products into commercial products. If these organizations do not adopt our technology, we might not be able to penetrate some of the new markets we are targeting, or we might lose some of our existing customer base.

In order for us to achieve our growth objectives, our e-Gov, IoT and connectivity, Cyber Security, technology and solutions must be adapted to and adopted in a variety of areas, any or all of which may not adopt our technology. These areas include, among others:

- national ID and e-Government;
- counties and municipals;
- public safety;
- safe and smart cities
- educational campus;
- healthcare and homecare; and
- large enterprises

We cannot accurately predict the future growth rate, if any, or the ultimate size of the e-Gov, IoT, Cyber Security, markets. The expansion of the market for our products and services depends on a number of factors such as:

- the cost, performance and reliability of our products and services compared to the products and services of our competitors;
- customer perception of the benefits of our products and solutions;
- public perception of the intrusiveness of these solutions and the manner in which organizations use the information collected;
- public perception of the privacy protection for their personal information;
- customer satisfaction with our products and services; and
- marketing efforts and publicity for our products and services.

Even if our products and solutions gain wide market acceptance, our products and services may not adequately address market requirements and may not gain wide market acceptance. If our solutions or our products and services do not gain wide market acceptance, our business and our financial results will suffer.

If we are unable to develop and sustain our position as a provider of e-Gov, IoT and Connectivity, and Cyber Security, solutions and services and earn high margins from our technology, our business will not be as profitable as we hope, if at all.

The increasing sophistication of our e-Gov, IOT, Cyber Security, and Connectivity based technology places a premium on providing innovative software systems and services to customers, in addition to manufacturing and supplying products. While we have had some success positioning ourselves as a provider of such services and systems, we may not continue to be successful with this strategy and we may not be able to capture a significant share of the market for the sophisticated solutions and services that we believe are likely to produce attractive margins in the future. A significant portion of the value of our e-Gov, Cyber Security, and Connectivity technology lies in the development of software, firmware and applications that will permit the use of our products and technology in selected new markets. In contrast, the margins involved in manufacturing and selling IOT and Connectivity based technology can be relatively small and may not be sufficient to permit us to earn an attractive return on our development investments.

Unfavorable global economic conditions may adversely affect our customers, which may directly impact our business and results of operations.

Our operations and performance depend on our target customers, including those from the governmental sector, having adequate resources to purchase our products. The turmoil in the credit markets, the oil price declines and the global economic downturn that commenced in 2008 and intensified in Europe, Africa and Asia in subsequent years generally adversely impacted our target customers. Companies and governmental authorities have reduced or delayed and may continue to reduce or delay their purchasing activities in response to a lack of credit, economic uncertainty, budget deficits and concern about the general stability of markets. Recently, several European, Latin American, and African countries encountered severe economic difficulties which affected the entire Euro-zone, African and Latin American economy. The financial crisis, among other things, resulted in the downgrade of the credit worthiness of several countries in Europe, Latin America and Africa, which affected our customers' ability and budget to perform projects within these territories. If such economic and market conditions remain uncertain or weaken further, specifically changes that have negatively impacted and may continue to negatively impact the political or economic stability and environment of the countries from which we derive most of our consolidated net revenues, our business and future operations may be materially adversely affected.

Our efforts to expand our international operations are subject to a number of risks, any of which could adversely reduce our future international sales and increase our losses.

Most of our revenues to date are attributable to sales in jurisdictions other than the United States. For the years ended December 31, 2017, 2016 and 2015, approximately 70%, 51% and 99.6%, respectively, of our revenues were derived from sales to markets outside of the United States. Our inability to obtain or maintain federal or foreign regulatory approvals relating to the import or export of our products on a timely basis could adversely affect our ability to expand our international business. Additionally, our international operations could be subject to a number of risks, any of which could adversely affect our future international sales and operating results, including:

- increased collection risks;
- trade restrictions;
- export duties and tariffs;
- uncertain political, regulatory and economic developments;
- inability to protect our intellectual property rights;
- highly aggressive competitors;
- currency issues;
- difficulties in staffing, managing and supporting foreign operations;
- longer payment cycles; and
- difficulties in collecting accounts receivable.

Negative developments in any of these areas in one or more countries could result in a reduction in demand for our products, the cancellation or delay of orders already placed, difficulty in collecting receivables, and a higher cost of doing business, any of which could adversely affect our business, results of operations or financial condition.

In addition, in many countries the national security organizations require our employees to obtain clearance before such employees can work on a particular transaction. Failure to receive, or delays in the receipt of, relevant foreign qualifications could also have a material adverse effect on our ability to make sales or fulfill our orders on a timely basis. Additionally, as foreign government regulators have become increasingly stringent, we may be subject to more rigorous regulation by governmental authorities in the future. If we fail to adequately address any of these regulations, our business will be harmed.

We are exposed to risks in operating in foreign markets, which may make operating in those markets difficult and thereby force us to curtail our business operations.

In conducting our business in foreign countries, we are subject to political, economic, legal, operational and other risks that are inherent in operating in other countries. Risks inherent to operating in other countries range from difficulties in settling transactions in emerging markets to possible nationalization, expropriation, price controls and other restrictive governmental actions. We also face the risk that exchange controls or similar restrictions imposed by foreign governmental authorities may restrict our ability to convert local currency received or held by us in their countries into U.S. dollars or other currencies, or to take those dollars or other currencies out of those countries.

Due to the nature of our business, our financial and operating results could fluctuate.

Our financial and operating results have fluctuated in the past and could fluctuate in the future from quarter to quarter. As a result of our dependence in the e-Gov division on a limited number of customers and our increased reliance on our e-Gov, and IoT solutions and products, our revenue has experienced wide fluctuations. We expect that our revenue will continue to fluctuate in the future as we market and implement solutions through our IoT and e-Gov divisions. A portion of our sales is not recurring sales; therefore, quarterly and annual sales levels will likely fluctuate. Sales in any period may not be indicative of sales in future periods. In addition, our result may fluctuate from year to year for the following reasons:

- long customer sales cycles;
- reduced demand for our products and services;
- price reductions;
- new competitors, or the introduction of enhanced products or services from new or existing competitors;
- changes in the mix of products and services we or our customers and representatives sell;
- contract cancellations, delays or amendments by customers;
- the lack of government demand for our products and services or the lack of government funds appropriated to purchasing our products and services;
- unforeseen legal expenses, including litigation costs;
- expenses related to acquisitions;
- other non-recurring financial charges;
- the lack of availability, or increased cost, of key components and subassemblies; and
- the inability to successfully manufacture in volume, and reduce the price of, certain of our products;

In addition, the period between our initial contact with a potential customer and the purchase of our products and services is often long and subject to delays associated with the budgeting, approval and competitive evaluation processes that frequently accompany significant capital expenditures, particularly by governmental agencies. The typical sales cycle for our government customers has, to date, ranged from three to 24 months and the typical sales cycle for our commercial customers has ranged from one to 12 months. A lengthy sales cycle may have an impact on the timing of our revenue, which may cause our quarterly operating results to fall below investor expectations. We believe that a customer's decision to purchase our products and services is discretionary, involves a significant commitment of resources, and is influenced by customer budgetary cycles. To successfully sell our products and services, we generally must educate our potential customers regarding their use and benefits, which can require significant time and resources. This significant expenditure of time and resources may not result in actual sales of our products and services.

Our reliance on third party technologies and components for the development of some of our products may delay product launches, impair our ability to develop and deliver products and hurt our ability to compete in the market.

Most of our products integrate third-party technology that we license and components that we purchase or otherwise obtain the right to use, including operating systems, microchips, security and cryptography technology for card operating systems and dual interface technology. Our ability to purchase and license new technologies and components from third parties is and will continue to be critical to our ability to offer a complete line of products that meets customer needs and technological requirements. We may not be able to renew our existing licenses or to purchase components on favorable terms, if at all. If we lose the rights to a patented technology, we may need to stop selling or may need to redesign our products that incorporate that technology. We may also lose the potential competitive advantage such technology gave us. In addition, competitors could obtain licenses for technologies for which we are unable to obtain licenses, and third parties may develop or enable others to develop a similar solution to security issues, either of which could adversely affect our results of operations. Also, dependence on the patent protection of third parties may not afford us any control over the protection of the technologies upon which we rely. If the patent protection of any of these third parties were compromised, our ability to compete in the market could also be impaired.

Although we generally use standard components for our systems, some of the key components are available only from limited sources. Even where multiple sources are available, we typically obtain components from only one vendor to ensure high quality, prompt delivery and low cost. If one of our suppliers was unable to meet our supply demands and we could not quickly replace the source of supply, it could have a material adverse effect on our business, operating results and financial condition, for reasons including a delay of receipt of revenues and damage to our business reputation.

Delays in deliveries from our suppliers, defects in goods or components supplied by our vendors, or delays in projects that are performed by our subcontractors could cause our revenues and gross margins to decline.

We rely on a limited number of vendors and subcontractors for certain components of the products we are supplying and projects we perform. In some cases, we rely on a single source vendor or subcontractor. Any undetected flaws in components to be supplied by our vendors could lead to unanticipated costs to repair or replace these parts. If one of our suppliers was unable to meet our supply demands and we could not quickly replace the source of supply, it could cause a delay of receipt of revenues and damage our business reputation. We depend on subcontractors to adequately perform a substantial part of our projects. If a subcontractor fails to fulfill its obligations under a certain project, it could delay our receipt of revenues for such project and damage our business reputation, and therefore could have a material adverse effect on our business, operating results and financial condition.

We may have significant differences between forecasted demands and actual orders received, which may adversely affect our business.

The lead time for ordering parts and materials and building many of our products can be many months. As a result, we must order parts and materials and build our products based on forecasted demand. If demand for our products lags significantly behind our forecasts, we may produce more products than we can sell, which can result in cash flow problems and write-offs or write-downs of obsolete inventory. If demand for our products exceeds our forecasts, our business may be harmed as a result of delays to perform contracts.

Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.

Cyber-attacks or other breaches of network or information technology, or IT, security, natural disasters, terrorist acts or acts of war may cause equipment failures or disrupt our systems and operations. We may be subject to attempts to breach the security of our networks and IT infrastructure through cyber-attack, malware, computer viruses and other means of unauthorized access. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. A failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. To date, we have not been subject to cyber-attacks or other cyber incidents which, individually or in the aggregate, resulted in a material impact to our operations or financial condition.

For us to further penetrate the marketplace, the marketplace must be confident that we provide effective security protection for national and other secured identification documents and cards. Although we have not experienced any act of sabotage or unauthorized access by a third party to our software or technology to date, if an actual or perceived breach of security occurs in our internal systems or those of our customers, regardless of whether we caused the breach, it could adversely affect the market's perception of our products and services. This could cause us to lose customers, resellers, alliance partners or other business partners, thereby causing our revenues to decline. If we or our customers were to experience a breach of our internal systems, our business could be severely harmed by adversely affecting the market's perception of our products and services.

Third parties could obtain access to our proprietary information or could independently develop similar technologies.

Despite the precautions we take, third parties may copy or obtain and use our technologies, ideas, know-how and other proprietary information without authorization or may independently develop technologies similar or superior to our technologies. In addition, the confidentiality and non-competition agreements between us and most of our employees, representatives and clients may not provide meaningful protection of our proprietary technologies or other intellectual property in the event of unauthorized use or disclosure. If we are not able to successfully defend our industrial or intellectual property rights, we may lose rights to technologies that we need to develop our business, which may cause us to lose potential revenues, or we may be required to pay significant license fees for the use of such technologies. To date, we have relied primarily on a combination of trade secret and copyright laws, as well as nondisclosure and other contractual restrictions on copying, reverse engineering and distribution to protect our proprietary technology.

Our current patents portfolio and any patents that we may register in the future may provide only limited protection for our technology and may not be sufficient to provide competitive advantages to us. For example, competitors could be successful in challenging any issued patents or, alternatively, could develop similar or more advantageous technologies on their own or design around our patents. Any inability to protect intellectual property rights in our technology could enable third parties to compete more effectively with us.

In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as do the laws of Israel or the United States. Our means of protecting our intellectual property rights in Israel, the United States or any other country in which we operate may not be adequate to fully protect our intellectual property rights.

Third parties may assert that we are infringing their intellectual property rights, and IP litigation could require us to incur substantial costs even when our efforts are successful.

We may face IP litigation, which could be costly, harm our reputation, limit our ability to sell our products, force us to modify our products or obtain appropriate licenses, and divert the attention of management and technical personnel. Our products employ technology that may infringe on the proprietary rights of others, and, as a result, we could become liable for significant damages and suffer other harm to our business.

Other than the litigation described in Item 8A “Consolidated Statements and Other Financial Information - Legal Proceedings,” we have not been subject to material IP litigation to date. We have received demand letters in the past alleging that products or processes of ours are in breach of patents, which we have denied, and after a respective lawsuit has been filed in respect of such claims, it has been resolved and dismissed with no effect on our business or any material cost to us.

Litigation may be necessary in the future to enforce any patents we have or may obtain and/or any other IP rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, and we may not prevail in any such future litigation. Litigation, whether or not determined in our favor or settled, could be costly, could harm our reputation and could divert the efforts and attention of our management and technical personnel from normal business operations. In addition, adverse determinations in litigation could result in the loss of our proprietary rights, subject us to significant liabilities, require us to seek licenses from third parties, prevent us from licensing our technology or selling or manufacturing our products, or require us to expend significant resources to modify our products or attempt to develop non-infringing technology, any of which could seriously harm our business.

Our products may contain technology provided to us by third parties. Because we did not develop such technology ourselves, we may have little or no ability to determine in advance whether such technology infringes the IP rights of any other party. Our suppliers and licensors may not be required to indemnify us in the event that a claim of infringement is asserted against us, or they may be required to indemnify us only with respect to intellectual property infringement claims in certain jurisdictions, and/or only up to a maximum amount, above which we would be responsible for any further costs or damages. In addition, we have indemnification obligations to certain parties with respect to any infringement of third-party patents and intellectual property rights by our products. If litigation were to be filed against these parties in connection with our technology, we would be required to defend and indemnify such parties.

We rely on the services of certain executive officers and key personnel, the loss of whom could adversely affect our business.

Our future success depends largely on the efforts and abilities of our executive officers and senior management and other key employees, including technical and sales personnel. The loss of the services of any of these persons could adversely affect our business. We do not maintain any “key-person” life insurance with respect to any of our employees.

Our ability to remain competitive depends in part on attracting, hiring and retaining qualified technical personnel, and if we are not successful in such efforts, our business could be disrupted.

Our future success depends in part on the availability of qualified technical personnel, including personnel trained in software and hardware applications within specialized fields. As a result, we may not be able to successfully attract or retain skilled technical employees, which may impede our ability to develop, install, implement and otherwise service our software and hardware systems and to efficiently conduct our operations.

The information technology and network security industries are characterized by a high level of employee mobility and the market for technical personnel remains extremely competitive in certain regions, including Israel. This competition means that (i) there are fewer highly qualified employees available for hire, (ii) the costs of hiring and retaining such personnel are high, and (iii) highly qualified employees may not remain with us once hired. Furthermore, there may be pressure to provide technical employees with stock options and other equity interests in us, which may dilute our shareholders and increase our expenses.

The additions of new personnel and the departure of existing personnel, particularly in key positions, can be disruptive, might lead to additional departures of existing personnel and could have a material adverse effect on our business, operating results and financial condition.

Some of our products are subject to government regulation of radio frequency technology, which could cause a delay in introducing, or an inability to introduce, such products in the United States and other markets.

The rules and regulations of the United States Federal Communications Commission(FCC), or the European CE, limit the radio frequency used by and level of power emitting from electronic equipment. Our Connectivity and IoT products and equipment are required to comply with these FCC and/or CE rules, which may require certification, verification or registration of the equipment with the FCC and CE. Certification and verification of new equipment requires testing to ensure the equipment’s compliance with the FCC’s and/or CE’s rules. The equipment must be labeled according to the FCC’s and/or CE’s rules to show compliance with these rules. Testing, processing of the FCC’s and/or CE’s equipment certificate or FCC registration and labeling may increase development and production costs and could delay introduction of our verification scanning device and next generation radio frequency technology scanning equipment into the U.S. European markets. Selling, leasing or importing non-compliant equipment is considered a violation of FCC or CE rules and related law, and violators may be subject to an enforcement action by the related authorities. Any failure to comply with the applicable rules and regulations of the FCC and/or CE could have an adverse effect on our business, operating results and financial condition by increasing our compliance costs and/or limiting our sales in the United States and Europe.

Risks Related to Our Ordinary Shares

Volatility of the market price of our ordinary shares could adversely affect our shareholders and us.

The market price of our ordinary shares has been, and is likely to be, highly volatile and could be subject to wide fluctuations in response to numerous factors, including the following:

- actual or anticipated variations in our quarterly operating results or those of our competitors;
- announcements by us or our competitors of technological innovations or new and enhanced products;
- developments or disputes concerning proprietary rights;
- introduction and adoption of new industry standards;
- changes in financial estimates by securities analysts;
- market conditions or trends in our industry;
- changes in the market valuations of our competitors;
- announcements by us or our competitors of significant acquisitions;
- entry into strategic partnerships or joint ventures by us or our competitors;
- failing to meet in the financial projection or guidance
- political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events; and
- other events or factors in any of the countries in which we do business, including those resulting from war, incidents of terrorism, natural disasters or responses to such events.

In addition, the stock market in general, and the market for Israeli companies in particular, has been highly volatile. Many of these factors are beyond our control and may materially adversely affect the market price of our ordinary shares, regardless of our performance. In the past, following periods of market volatility, shareholders have often instituted securities class action litigation relating to the stock trading and price volatility of the company in question. If we were involved in any securities litigation, it could result in substantial cost to us to defend and divert resources and the attention of management from our business.

We have a shareholder that is able to exercise substantial influence over us and all matters submitted to our shareholders.

Sigma Wave Ltd., or Sigma, which is controlled by family members of Mrs. Tsviya Trabelsi, our Chairman of the Board, and by her husband, Mr. Arie Trabelsi, is the beneficial owner of approximately 26.9% of our outstanding shares. Such ownership interest gives Sigma the ability to influence our activities, subject to approvals that may be required for related-party transactions pursuant to Israeli law. Sigma may have influence over the outcome of most matters submitted to our shareholders, including the election of directors and the adoption of a merger agreement, and such influence could make us a less attractive acquisition or investment target. Because the interests of Sigma may differ from the interests of our other shareholders, actions taken by Sigma with respect to us may not be favorable to our other shareholders.

We do not expect to pay cash dividends.

We have never paid cash dividends on our ordinary shares and do not anticipate paying cash dividends in the near future. According to the Israeli Companies Law, dividends may only be paid out of profits legally available for distribution and provided that there is no reasonable concern that such payment will prevent us from satisfying our existing and foreseeable obligations as they become due. The payment of dividends will depend on earnings, financial condition, debt covenants in place, and other business and economic factors affecting us at such time as our board of directors may consider relevant. If we do not pay dividends, our ordinary shares may be less valuable because a return on your investment will only occur if our stock price appreciates.

We may fail to maintain effective internal control over financial reporting, which could result in material misstatements in our financial statements.

The Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404 of Sarbanes-Oxley governing internal controls and procedures for financial reporting have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. Section 404 of Sarbanes-Oxley requires management's annual review and evaluation of our internal control over financial reporting in connection with the filing of the annual report on Form 20-F for each fiscal year. We may identify material weaknesses or significant deficiencies in our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in material misstatements in our financial statements. Any such failure could also adversely affect the results of our management's evaluations and annual auditor reports regarding the effectiveness of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

Risks Related to Our Location and Incorporation in Israel

Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.

We are incorporated under the laws of, and our principal executive offices and research and development facilities are located in, the State of Israel. As a result, political, economic and military conditions affecting Israel directly influence us. Any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel could adversely affect our business, financial condition and results of operations.

Since its establishment in 1948, Israel has been involved in a number of armed conflicts with its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has continued into 2017. Also, since 2011, wars and uprisings in several countries in the Middle East and neighboring regions have led to severe political instability in several neighboring states and to a decline in the regional security situation. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

Furthermore, we could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Some countries, companies and organizations continue to participate in a boycott of Israeli companies and others doing business with Israel or with Israeli companies. As a result, we are precluded from marketing our products to these countries, companies and organizations. Foreign government defense export policies towards Israel could also make it more difficult for us to obtain the export authorizations necessary for our activities. Also, over the past several years, there have been calls, in Europe and elsewhere, to reduce trade with Israel. Restrictive laws, policies or practices directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Our financial results may be adversely affected by inflation and currency fluctuations.

We report our financial results in dollars, while a portion of our expenses, primarily salaries, are paid in NIS. Therefore, our NIS related costs, as expressed in U.S. dollars, are influenced by the exchange rate between the U.S. dollar and the NIS. The appreciation of the NIS against the U.S. dollar will result in an increase in the U.S. dollar cost of our NIS expenses. We are also influenced by the timing of, and the extent to which, any increase in the rate of inflation in Israel over the rate of inflation in the United States is not offset by the devaluation of the NIS in relation to the dollar. Our dollar costs in Israel will 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 past, the NIS exchange rate with the dollar and other foreign currencies had fluctuated, generally reflecting inflation rate differentials. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS against the dollar. If the dollar cost of our operations in Israel increases, our dollar measured results of operations will be adversely affected.

Our operations could be disrupted as a result of the obligation of management or key personnel to perform military service in Israel.

Generally, all nonexempt male adult citizens and permanent residents of Israel under the age of 40, or older for reserves officers or citizens with certain occupations, as well as certain female adult citizens and permanent residents of Israel, are obligated to perform annual military reserve duty and are subject to being called for active duty at any time under emergency circumstances. While we have operated effectively under these requirements since our incorporation, we cannot predict the full impact of such conditions on us in the future, particularly if emergency circumstances occur. If many of our employees are called for active duty, our operations in Israel and our business, operating results and financial condition may be adversely affected.

We may not be able to enforce covenants not-to-compete under current Israeli law.

We have non-competition agreements with most of our employees, many of which are governed by Israeli law. These agreements generally prohibit our employees from competing with us or working for our competitors for a specified period following termination of their employment. However, Israeli courts are reluctant to enforce non-compete undertakings of former employees and tend, if at all, to enforce those provisions for relatively brief periods of time in restricted geographical areas and only when the employee has unique value specific to that employer's business and not just regarding the professional development of the employee. Any such inability to enforce non-compete covenants may cause us to lose any competitive advantage resulting from advantages provided to us by such confidential information.

We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.

A significant portion of our intellectual property has been developed by our Israeli employees in the course of their employment for us. Under the Israeli Patent Law, 5727-1967 (the "Israeli Patent Law"), inventions conceived by an employee during the term and as part of the scope of his or her employment with a company are regarded as "service inventions," which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Israeli Patent Law also provides that if there is no such agreement between an employer and an employee, the Israeli Compensation and Royalties Committee (the "C&R Committee"), a body constituted under the Israeli Patent Law, shall determine whether the employee is entitled to remuneration for his inventions. The C&R Committee (decisions of which have been upheld by the Israeli Supreme Court) has held that employees may be entitled to remuneration for their service inventions despite having specifically waived any such rights. Further, the C&R Committee has not yet set specific guidelines regarding the method for calculating this remuneration or the criteria or circumstances under which an employee's waiver of his right to remuneration will be disregarded. We generally enter into intellectual property assignment agreements with our employees pursuant to which such employees assign to us all rights to any inventions created in the scope of their employment or engagement with us. Although our employees have agreed to assign to us service invention rights and have specifically waived their right to receive any special remuneration for such assignment beyond their regular salary and benefits, we may face claims demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current or former employees, or be forced to litigate such claims, which could negatively affect our business.

Your rights and responsibilities as a shareholder will be governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our Memorandum of Association and Articles of Association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and customary manner in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders, and to refrain from misusing his power, including, among other things, when voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable to shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital and mergers and interested party transactions requiring shareholder approval. A shareholder also has a general duty to refrain from exploiting any other shareholder of his or her rights as a shareholder. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or who, under our Articles of Association, has the power to appoint or prevent the appointment of a director or executive officer in the company, has a duty of fairness toward the company. Israeli law does not define the substance of this duty of fairness, but provides that remedies generally available upon a breach of contract will apply also in the event of a breach of the duty to act with fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

Provisions of Israeli law may delay, prevent or otherwise encumber a merger with or an acquisition of our company, which could prevent a change of control, even when the terms of such transaction are favorable to us and our shareholders.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. These provisions of Israeli law could delay, prevent or impede a merger with or an acquisition of our company, which could prevent a change of control, even when the terms of such transaction are favorable to us and our shareholders and therefore potentially depress the price of our shares.

Our shareholders may face difficulties in the enforcement of civil liabilities against us and our officers and directors and auditors or in asserting U.S. securities law claims in Israel.

Most of our officers and directors and our auditors are residents of Israel or otherwise reside outside of the United States. SuperCom Ltd. is incorporated under Israeli law and its principal office and facilities are located in Israel. All or a substantial portion of the assets of such persons are or may be located outside of the United States. Therefore, service of process upon SuperCom Ltd., such directors and officers and our auditors may be difficult to effect in the United States. It also may be difficult to enforce a U.S. judgment against SuperCom Ltd., such officers and directors and our auditors as any judgment obtained in the United States against such parties may not be collectible in the United States. In addition, it may be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

Being a foreign private issuer exempts us from certain Securities and Exchange Commission requirements.

As a foreign private issuer within the meaning of rules promulgated under the U.S. Securities and Exchange Act of 1934, as amended, or the Exchange Act, we are exempt from certain provisions applicable to U.S. public companies including:

- the rules under the Exchange Act requiring the filing with the Securities and Exchange Commission of quarterly reports on Form 10-Q and current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies in connection with shareholder meetings;
- the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; and
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any “short-swing” trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer’s equity securities within less than six months).

Because of these exemptions, investors are not afforded the same protections or information generally available to investors holding shares in public companies organized in the United States.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

SuperCom Ltd. is a company organized under the laws of the State of Israel. Our registered office is located at 1 Arie Shenkar, Herzlia, Israel, 4672501, telephone number +972-9-889-0880. Our agent in the United States is SuperCom, Inc., and is located at 200 Park Avenue South, New York, New York, telephone number +1 (212) 675-4606.

From our incorporation in 1988 until 1999, we were a development-stage company primarily engaged in research and development, establishing relationships with suppliers and potential customers and recruiting personnel with a focus on the governmental market. In 2001, we implemented a reorganization plan, which we completed in 2002. As a result of the reorganization, we expanded our marketing and sales efforts to include the commercial market with a new line of advanced smart card and identification technologies products, while maintaining our governmental market business.

During 2002, we sold, in three separate transactions with third party purchasers, our entire equity interest in a U.S. subsidiary, InkSure Technologies, Inc., for which we received aggregate proceeds of approximately \$6.6 million. In December 2002, we discontinued the operations, disposed of all of the assets and terminated the employees of two U.S. subsidiaries, Genodus Inc. and Kromotek, Inc.

In 2006 we decided to sell most of our e-Gov Division in order to focus on opportunities in the U.S. for our IoT businesses as well as our Critical Situation Management System, or CSMS, business, which we sold in 2010.

On December 31, 2006, we sold the majority of the e-Gov Division activities and related intellectual property to OTI for 2,827,200 restricted ordinary shares of OTI, as of December 31, 2008, we sold all of the OTI shares that we received in the transaction.

On August 28, 2007, we purchased through our wholly-owned subsidiary, Vuanice, Inc., all of the issued and outstanding stock capital of Security Holding Corp., or SHC, from Homeland Security Capital Corporation and other minority shareholders for approximately \$4.34 million of our ordinary shares and direct expenses of approximately \$600,000 in our ordinary shares. A total of 258,218 ordinary shares were issued to the sellers. SHC was a Delaware corporation engaged in the manufacture and distribution of RFID-enabled solutions, access control and security management systems. During the fourth quarter of 2007, SHC and its subsidiaries were merged into our Vuanice, Inc. subsidiary.

In September 2007, we entered into a definitive agreement to acquire the credentialing division of Disaster Management Solutions Inc., or DMS, for approximately \$100,000 in cash and up to \$650,000 in royalties payable upon sales of the advanced first responder credentialing system named "RAPTOR" during the first twelve months following the acquisition in August 2007. This acquisition complemented our former incident management solutions business and added the RAPTOR system to our former CSMS business, both of which were sold in 2010.

On March 25, 2009, we completed the acquisition of certain of the assets and certain of the liabilities of Intelli-Site, Inc. pursuant to an asset purchase agreement. We agreed to pay Intelli-Site \$262,000 payable in cash and in our shares (which were subject to a certain lock up mechanism) and included a contingent consideration of up to \$600,000 based upon certain conditions.

In January 2010, we completed the sale to OLTIS Security Systems International, LLC, or OSSI, of certain assets (including certain accounts receivable and inventory of a subsidiary) and certain liabilities (including certain accounts payable) related to our electronic access control market for \$146,822 in cash. In addition, OSSI paid off a loan that our subsidiary had taken from Bridge Bank, National Association.

In January 2010, we completed the sale of certain of the assets of Vuanice, Inc and certain of its liabilities related to our Government Services Division, pursuant to an asset purchase agreement for \$250,000. In addition, the purchasers agreed to pay Vuanice, Inc. an earn-out of up to \$1.5 million over the course of calendar years 2010 through 2013.

At the beginning of 2012, we decided to leverage our experience in the e-Gov market and increase our position in the market by: (i) proposing other new technologies and solutions to our existing e-Gov customers, (ii) securing other e-Gov projects and solutions by virtue of entering into joint ventures with partners with a global presence and complementary goals and products and (iii) retaining an outstanding group of market executives and experts, which allowed us to propose and implement what we believe to be competitive ID and e-Gov solutions to the global markets.

During 2012, we altered our strategy with respect to the IoT division to focus on solutions for three growing electronic monitoring vertical markets: (i) public safety, (ii) healthcare and homecare and (iii) transportation management. We have enhanced and developed a series of new products and solutions including the Pure Security Suite, Puretag, PureCom, Pure Monitor and PureTrack,

Between 2013 and through 2016, our product depth and global presence was expanded significantly with our acquisitions of the SmartID division of OTI in 2013, Prevision in 2015, and LCA, Safend, the Powapos business, and Alvarion in 2016, together with our extensive research and development of new product lines for the e-Gov, IoT, cyber security, and connectivity businesses.

On December 26, 2013, we acquired the SmartID division of OTI, including all contracts, software, other related technologies and IP assets. We paid OTI \$8.8 million (\$10 million less certain closing adjustments) at the closing and agreed to make contingent payments of up to \$12.5 million pursuant to an earn-out mechanism based on certain performance and other milestones. In April 2016, we had further negotiations with OTI, and entered into an agreement with OTI. Under this agreement, the remaining earn-out amount was reduced to a maximum of \$3.55 million, out of which an amount of \$2.05 million was paid at the beginning of May 2016.

On November 12, 2015, we acquired Prevision, an Israeli based cyber security company. We paid \$1.1 million at the closing and agreed to make contingent annual payments of approximately \$250,000 pursuant to an earn-out mechanism for the next four years. The contingent consideration is subject to service provided by the seller to the company during the earn-out period and therefore is not part of the business combination, as of January 15, 2018 the seller does not provide services to the Company.

On January 1, 2016 we acquired LCA, a U.S. based company, including all contracts, software, other related technologies and IP assets. We paid \$2.9 million at the closing and committed to certain contingent earn-out payments over the next three years that are structured as a single digit percentage of annual revenues in excess of stand-alone LCA management revenue projections, as of January 2018 the contingent earn-out is no longer exists.

On March 13, 2016, we acquired Safend, an Israeli based cyber security company. In consideration for this acquisition, we agreed to provide up to \$1.5 million in working capital to Safend to support its activity and growth through a structured debt and equity vehicle and to provide administrative, sales and marketing services and required capital. Safend is an international provider of cutting edge endpoint data protection guarding against corporate data loss and theft through content discovery and inspection, encryption methodologies, and comprehensive device and port control. Safend maps sensitive information and controls data flow through email, web, external devices and additional channels. Founded in 2003 and headquartered in Tel Aviv, Israel, Safend sold its products to over 3,000 customers in the United States, Europe, and Asia, and more than three million software license seats deployed by multinational enterprises, government agencies and small to mid-size companies around the globe.

On April 18, 2016, we acquired the Powapos business, a division of POWA Technologies Ltd., the developer of a fully-integrated mobile and tablet-based system integrating industry-leading retail and secure payment solutions into one simplified, attractive and innovative POS platform.

On May 18, 2016, we acquired Alvarion. Alvarion designs solutions for carrier wi-fi, enterprise connectivity, smart city, smart hospitality, connected campuses and connected events that are both complete and heterogeneous to ensure ease-of-use and optimize operational efficiency.

B. BUSINESS OVERVIEW

Founded in 1988, we are a global provider of traditional and digital identity solutions, advanced IoT and connectivity solutions, and cyber security products and solutions, to governments and private and public organizations throughout the world.

We are comprised of three main Strategic Business Units(SBU) : e-Gov, IoT and Connectivity(or “IoT”), and Cyber Security:

e-Gov

Through our proprietary e-Government platforms and innovative solutions for traditional and biometrics enrollment, personalization, issuance and border control services, we have helped governments and national agencies design and issue secured multi-identification, or Multi-ID, documents and robust digital identity solutions to their citizens , visitors and Lands

We have focused on expanding our activities in the traditional identification, or ID, and electronic identification, or e-Gov, market, including the design, development and marketing of identification technologies and solutions to governments in Europe, Asia, America and Africa using our e-Government platforms. Our activities include: (i) utilizing paper secured by different levels of security patterns (UV, holograms, etc.); and (ii) electronic identification secured by biometric data, principally in connection with the issuance of national Multi-ID documents (IDs, passports, driver’s licenses, vehicle permits, and visas, Secure Land Certificated) border control applications and Land Information System(LIS) .

On December 26, 2013 we acquired the SmartID division of On Track Innovations Ltd., or OTI, including all contracts, software, other related technologies and intellectual property, or IP, assets. The SmartID division has a strong international presence, with a broad range of competitive and well-known e-Gov solutions and technology. The acquisition significantly expanded the breadth of our e-Gov capabilities globally, while providing us with outstanding market and technological experts, together with leading ID software platforms and technologies.

IoT and Connectivity

Our IoT products and solutions reliably identify, track and monitor people or objects in real time, enabling our customers to detect unauthorized movement of people, vehicles and other monitored objects. We provide all-in-one field-proven IoT suite, accompanied with services specifically tailored to meet the requirements of an IoT solutions. Our proprietary IoT suite of hybrid hardware, connectivity and software components are the foundation of these solutions and services. Our IOT division has primarily focused on growing the following markets: (i) public safety; (ii) healthcare and homecare; (iii) Smart Cities (iv) Smart Campus and (iv) transportation.

During 2006, we identified the growing electronic tracking and monitoring vertical markets for public safety, real time healthcare and homecare, and transportation management. We have developed the PureRF Hybrid suit of wrist devices, connectivity, and controlling software, from 2012 we have developed the next generation IoT suite of devices, connectivity and Monitoring software; the PureSecurity Hybrid Suite of wrist band, tags, beacons, PureCom, Pure Monitors, PureTrack and other components.

On January 1, 2016 we acquired Leaders in Community Alternatives, Inc., or LCA. LCA is a California based, private criminal justice organization, providing community-based services and electronic monitoring programs to government agencies in the U.S. for more than 25 years. LCA offers a broad range of competitive solutions for governmental institutions across the U.S. in addressing realignment strategies and plans.

Connectivity, In 2016, as part of our strategy to enhance and broaden our IoT connectivity products and solutions offerings for public safety, enterprises, hospitality and smart cities markets, on May 18, 2016, we acquired Alvarion Technologies Ltd., or Alvarion. Alvarion designs solutions for carrier wi-fi, enterprise connectivity, smart city, smart hospitality, connected campuses and connected events that are both complete and heterogeneous to ensure ease-of-use and optimize operational efficiency. Carriers, local governments and hospitality sectors worldwide deploy Alvarion’s intelligent wi-fi networks to enhance productivity and performance, as well as its legacy backhaul services and products.

Secure Financial Solutions (SFS), During 2014, we identified the secure financial services market as a very fast growing market where we believe that SuperCom has major advantages due to synergic technologies and shared customer base to our other divisions. Since 2014, we have developed and introduced secure financial services suite of products, the SuperPay™. We offer advanced secure mobile payments ranging from mobile wallet to mobile point of sale (POS) using a set of components and platforms to enable secure mobile payments and financial services.

On April 18, 2016, we acquired the Powapos business, a division of POWA Technologies Ltd., the developer of a fully-integrated mobile and tablet-based system integrating industry-leading retail and secure payment solutions into one simplified, attractive and innovative POS platform. Powapos has been deployed in countries all over the world, and has been integrated by cloud-based POS software providers, we believes this technology will be a highly value-added solution to our secure payment customers around the world.

Cyber Security

During 2015, we identified the cyber security market as a very fast growing market where we believe that SuperCom has major advantages due to synergic technologies and shared customer base to our e-Gov, IoT and connectivity SBUs. In 2015, we acquired Prevision Ltd., or Prevision, a company with a strong presence in the market and a broad range of competitive and well-known cyber security services. During the first quarter of 2016, we acquired Safend Ltd, or Safend, an international provider of cutting edge endpoint data protection guarding against corporate data loss and theft through content discovery and inspection, encryption methodologies, and comprehensive device and port control. Safend maps sensitive information and controls data flow through email, web, external devices and additional channels.

Both acquisitions significantly expanded the breadth of our cyber security capabilities globally, while providing us with outstanding market and technological experts and over 3,000 customers in the United States, Europe, and Asia, and more than three million software license seats deployed by multinational enterprises, government agencies and small to mid-size companies around the globe, together with leading data and cyber security platforms and technologies.

Market Opportunity

We believe that our wide range of solutions offers us several opportunities across global markets and industries. The overall e-Gov market remains strong. Our addressable market includes both developing and developed countries. The acquisition of the SmartID division of OTI in late 2013 diversified our source of revenues and offered us access to new markets in Africa, Asia, and South America, all areas with great potential.

We plan to grow the e-Gov division organically, by adding new e-Gov government customers and by offering more services to existing customers. We believe that our platform is agile and scalable, meaning that once a customer is using one of our applications, it is easy to add additional applications and services, which can increase a client's return on their investment. In addition, and as a result of the integration of SuperCom and the SmartID division, we are now well-positioned to work on larger international tenders, we began actively bidding on larger international tenders in markets where we see significant opportunities.

The opportunities we see for our e-Gov division may have an impact on the number of opportunities for our IoT, and Cyber security divisions as well. We have begun to leverage our e-Gov existing customer base, and we believe that the expertise and robust innovative solutions in these two segments represent a significant opportunity for SuperCom.

We offer our new generation IoT and connectivity hybrid suite, which provides a full solution encompassing proprietary software and various secure connectivity technology, to customers in the United States and in Europe, South America and Africa, by exhibiting and demoing to potential customers in those regions. We launched our new generation Pure Security offender monitoring suite and began submitting it to tenders in the public safety market. These tenders range in value from tens of thousands to tens of millions of dollars.

In January 1, 2016, we acquired LCA, a California based, private criminal justice organization with over 25 years of experience running electronic monitoring programs for government customers in the U.S. It has significantly bolstered our competitive edge in competitive tenders allowing us to offer not only cutting edge technology, but also extensive industry experience. We have since then beat market competitors in competitive processes and have been awarded projects in various countries around the world including USA, Canada, Latvia, Czech Republic, Denmark, Bulgaria and other countries in Europe and Asia. Following our recent success and status in active tenders, we believe we are well positioned to win additional new projects in years to come.

In addition, there is always demand for better security systems and services. We believe that personnel and asset management are now leading security concerns in commercial and governmental enterprises, and that this should drive an increasing demand for secure, precise and cost-effective means to positively identify, locate, track, monitor, count and protect people and objects, including inventory and vehicles. Our IoT solutions provide an optimal solution to these problems as our solutions reliably identify and track the movement of people and objects in real time, enabling our customers to detect unauthorized movement of vehicles as well as trace packages, containers and the access to premises by control personnel and vehicles.

With respect to our Secure Financial Solutions, research indicates that 2.5 billion people globally are un-banked (meaning they have no bank account or credit card), but over 1 billion of those people have access to mobile phones, which represents our SFS applicable market. We presented our mobile money and mobile payment suite at several large payment conferences and the global market showed interest in our proprietary solution.. In September, 2016, we launched a mobile wallet solution together with Verifone, a leading global technology and service provider in the point-of-sale market, and Nofshonit, one of the largest loyalty club providers and operators in Israel, for digital loyalty and pre-paid shopping programs. We believe that our ability to capture even a small portion of this fast growing market would represent a significant and long-term growth opportunity.

We identified the Cyber Security market as a fast growing market where SuperCom has major advantages due to synergic technologies and shared customer bases with our e-Gov, and IoT divisions. In 2015, we acquired Prevision Ltd., a company with a broad range of competitive and well-known Cyber Security services. During the first quarter of 2016, we acquired Safend Ltd, an international provider of cutting edge endpoint data protection guarding against corporate data loss and theft. We now have a platform of thousands of sophisticated enterprise customers which run our proprietary endpoint protection software and utilize our cyber security services. Through this platform we hope to more easily deploy additional innovations in cyber security, such as our proprietary Safe Mobile security software, to high quality enterprise customers.

Our Strategy

We are focused on our core competencies, which are comprised of our e-Gov platform and solutions, our IoT suite and connectivity solutions, our extensive Cyber Security products and solutions. Our growth strategy includes the following components:

- Develop strong strategic relationships with our business partners, including the systems integrators and representatives that introduce our products and solutions into their respective markets.
- Employ dedicated sales personnel to work closely with our business partners. Our sales personnel will customize and adapt solutions that can then be installed and supported by these business partners.
- Expand our IoT and Cyber Security activities globally, particularly in the Americas, Europe, and the Far East.
- Leverage our customer base, superior PureSecurity hybrid suite of IoT solutions, and Cyber Security capabilities to secure additional long-term contracts with governments and communities in the public safety markets.
- Leverage our reputation, talented personnel, and project management capabilities in the e-Gov market to secure additional projects and solutions in the growing e-Government market.
- Leverage our customer base, Connectivity solutions, and Cyber Security capabilities to secure additional long-term contracts with governments and communities in the Communication Infrastructure market.
- Develop strong strategic relationships with business partners that will introduce our solutions into the healthcare, homecare, Safe City and Smart Campus markets.
- Develop strong strategic relationships with business partners in the financial services industry, and un-banked and mobile payments markets.

- Identify and acquire synergistic contracts or businesses in order to reduce time to market, obtain complementary technologies and secure required references for international bids.
- Grow our business in emerging markets with perceived significant growth opportunities.

We currently target the following markets:

National e-Government Market. Additional national e-Government clients with our e-Gov and Cyber Security technologies and products.

Public Safety Market . Public safety, including law enforcement agencies, community, safety agencies and ministries of justice around the world, with our electronics monitoring, or EM, solutions, including electronic identification, monitoring and tracking solutions for house arrests, GPS tracking, inmate control, detainee monitoring, juvenile supervision and tracking of persons returned to communities.

Financial Services and Retail Markets. Cyber Security, Financial services and retail markets through our SFS suite, VeloPOS, and through our Cyber Security products and solution.

Airports and Ports. Airports and ports with our IoT, e-Gov, cyber security and connectivity products and solutions. Our IoT products can help common carriers monitor, track, locate and manage multiple baggage items simultaneously, thereby reducing the risk of lost baggage, increasing customer service and improving security. Our e-Gov solutions can offer airports and ports turnkey border control systems. Our border control system is based on passenger biometric identification applications, electronic passport identification, and both optical and electronic means to detect forged passports. The system, which is operable whether it is online or offline, enables border control officers to receive accurate identification based on a combination of two machine-readable biometric applications: fingerprints and facial recognition. We offer short implementation and quick integration with the existing border control system of the country and provide external interfaces to digital certificate authority for signature verification as well as interfaces to other agencies.

Enterprises and Industrial Companies. Enterprises and industrial companies with our cyber security, SPS, connectivity, and IoT products and solutions, which can be used by enterprises, shippers and warehouse operators to manage and track cartons, pallets, containers and individual items in order to facilitate movement, pick up orders, verify inventory and reduce delivery time. In addition, industrial companies can manage and track their mobile equipment and tools. We believe that our IoT suite can increase efficiency at every stage of asset, inventory and supply chain management by enabling long-range identification and location of products and removing the need for their human visual identification. Our products also work in conjunction with existing bar coding and warehouse systems to reduce the risk of loss, theft and slow speed of transfer.

Hospitals and Homecare. Hospitals and homecare with our cyber security, Connectivity, and IoT products and solutions. The healthcare sector has successfully utilized IoT technologies for the purposes of infant protection in maternity wards and resident safety in care homes similar to our asset and personnel location and identification system targeted at the secure facility and hazardous business sectors. Our IoT Suite can provide solutions for the healthcare sector for asset, staff, patient and medical record location and identification. We believe that as hospitals continue to upgrade their security measures, IoT and connectivity technology will be utilized in real-time location systems that are designed to immediately locate persons, equipment and objects within the hospital.

Municipals and Educations. Municipals and education institution with our Safe City, Smart City and Smart Campus products and solutions and cyber security, connectivity, and IoT products and solutions.

Government and Enterprise Cyber Security Markets. Homeland and enterprise cyber security markets with our Cyber Security products and services to governments and large enterprises.

Our Solutions and Products

e-Government (e-Gov) SBU Products and Solutions

We have been active in the national ID and e-Government industry for more than 25 years. We work with governments and public sectors, and we believe SuperCom e-Gov is an internationally recognized competitor in the design, development, integration and delivery of highly secured national ID and e-Government solutions.

We offer a complete end-to-end in-house solution for credentialing, identifying and verifying individuals by combining the capability to support biometric identification with the portability of smart cards. Most of our products are based on a common platform, which we refer to as MAGNA™, a complete end-to-end solution for such items as e-passports, national identity cards, voter identification cards and drivers' licenses. Our solution covers everything necessary for a government to offer a particular service to the public: business process engineering, solution design and integration, hardware and software implementation, operator and technician training. The solution covers all workflows, managerial and operational reports, and it interfaces directly with the government's business activity.

In addition, our e-Gov division offers a variety of related services, including: requirements extraction and system design, project management, project operation, training, operational processes optimization, assimilation, project financing (under BOT/PPP scheme), knowledge transfer, fee collection, maintenance and support and more.

We believe our e-Gov systems comply with regional and international standards and enhance usability by using smart card applications. Our systems' central servers include redundancy capabilities that provide disaster recovery or failover between sites. All solutions issue financial, accountability, transaction auditing and management information reports, which decrease the likelihood of tampering and fraud by individuals.

Our products combine the portability of smart cards with the capability to support advanced identification and authentication technology and manage significant amounts of information. Our MAGNA™ modular platform offers short implementation and quick integration with the existing border control system of a country and provides external interfaces to digital certificate authority for signature verification, as well as interfaces to other agencies. It offers a migration path to additional e-Government applications and to additional electronic ID documents, such as national IDs, voter IDs and drivers' licenses. Our platform can be customized to support a large number of applications, and it has been deployed in different e-passport/national ID contracts worldwide. It is also being developed for additional applications, such as medical services.

Our border control system is based on passenger biometric identification applications, electronic passport identification, and both optical and electronic means of detecting forged passports. The system, operable online or offline, enables border control officers to receive accurate identification based on a combination of two machine-readable biometric applications: fingerprints and facial recognition.

IoT and Connectivity SBU Products and Solutions

Our IoT division features a multiple connectivity base IoT hybrid suit accompanied by services specifically tailored to meet the requirements of the applicable industries, primarily: (i) public safety, (ii) healthcare and homecare, (iii) SafeCity, (iv) Smart Campus, (v) Connectivity networks and (iii) transportation. Our PureRF and PureSecurity suite assists organizations in efficiently utilizing time and resources. We believe it has a number of advantages for remote hands-off authentication, validation, identification, location and real-time monitoring of valuable personal resources and assets.

Equipped with complex IT and cyber security knowledge and experience, our senior personnel from the IoT industry and our suite of products and software can customize IoT and connectivity programs and solutions at all levels, from tags to readers to servers, and at all stages, from design to implementation and maintenance.

PureRF Suite. Our PureRF Suite provides a secure, precise and cost-effective means to positively identify, locate, track, monitor, count and protect people and objects, including inventory and vehicles. Our PureRF Suite is a complete location position, or LP, system solution based on active RFID tag technology that provides commercial customers and governmental agencies enhanced asset management capabilities. The basic components of our PureRF Suite include:

PureRF Tags. The PureRF solution relies on small, low-powered PureRF tags that are attached to objects or people. These weatherproof and shock-resistant tags are inexpensive and attach easily to key chains, uniform equipment, property, or vehicles to allow identification and tracking wherever it is needed. License-free radio bands are used to track RF signals and can be read on handheld devices. Transmitters can be programmed for periodic or event-driven transmissions. For high-security sites or situations, encrypted tag-to-reader communication prevents cloning or copying. An integrated anti-collision algorithm allows multiple tags to be simultaneously identified by a single reader, allowing employees to be matched to individual laptops or assets, shipping pallets to merchandise, assets to “authorized” locations and drivers to specific vehicles.

Hands-Free Long-Range RFID Asset Tags. These tags provide real-time asset loss prevention, inventory management, and personnel/asset tracking. They identify and track laptops, office machines, computer systems, tools, and telephones. They also identify employees and visitors in office buildings, hospitals, retail stores, warehouses, industrial facilities, mines and military installations.

Hands-Free Long-Range RFID Vehicle Tags. These tags provide long-range vehicle ID for parking and fleet management, access control, asset loss prevention at airports, gated communities, truck and bus terminals, employee parking lots, hospitals, industrial facilities, railroads, mines and military installations.

PureRF Readers. Our PureRF reader is used to receive status messages from PureRF tags. The PureRF reader is an intelligent, reliable and effective small long-range RFID reader with an integrated protocol converter. The protocol converter supports various standard interfaces such as 26 bit Wiegand format, serial RS-232, serial RS-485 or TCP/IP (Ethernet) protocols, which can be utilized in various solutions. Range-adjustable antennas can be discretely hidden to identify and track PureRF tag activity. PureRF readers can operate individually for small applications or in a network to cover wide areas. The units are small, reliable and effective and can be controlled by multiple communications media.

PureRF Activators. PureRF activators are used to improve the accuracy of locating assets compared to what is provided by the receiver ID. They are used primarily at entrances and exits. For this purpose, PureRF activators are deployed throughout the monitored space where improved tag location measurement is required. The PureRF activators continually transmit a short-range uniquely identifying LF signal. Tags can read this signal when they are close to the activator (up to about 24 feet). The activator ID that a tag reads is added to the message that the tag transmits to the receiver. An activator’s ID indicates the location of a PureRF tag.

PureRF Initializer. A PureRF initializer is a device that integrates an LF transmitter and an RF receiver into one device. This enables the PureRF initializer to perform bi-directional communication with the tags. The PureRF initializer is used to control a tag’s mode of operation (on/off) and to set or modify a tag’s operational parameters, such as transmission frequency (timing) and activated sensors.

House Arrest Monitoring System. Our house arrest monitoring system provides fully customizable surveillance programs to eliminate frustration and operational inefficiencies. Our house arrest system is based on our PureMonitor cloud-based software and includes the PureCom base station and the PureTag RF bracelet.

PureTag RF Bracelet. Our PureTag RF bracelet is a highly secure, hypoallergenic, lightweight and compact RF bracelet that operates across the complete spectrum of the PureSecurity Corrections Tracking Suite. Its features include: (i) an encrypted RF signal, (ii) easy installation, (iii) four years of battery life, (iv) a disposable strap, (v) proximity detection, (vi) motion tamper detection and (vii) a strap and case.

PureCom RF Base Station. The PureCom RF base station brings new features and functionality to new house arrest programs. Each PureCom RF base station supports up to 50 PureTag RF bracelets. Its features include (i) a smart LCD screen, (ii) fingerprint ID verification, (iii) two-way communications via text and voice, cell, landline, Wi-Fi, and Ethernet connections, (iv) streamlined field installation, (v) a 72-hour battery backup, (vi) dual SIM for broader coverage, (vii) onboard GPS tracking, and (viii) a rugged impact resistant shell.

GPS Offender Tracking System. Our GPS offender tracking system provides fully customizable surveillance programs to minimize frustration and operational inefficiencies. The GPS offender tracking system is based on our PureMonitor cloud-based software and includes the PureTrack smartphone device, the PureTag RF bracelet and an optional PureBeacon device.

PureTrack. Smartphone technology has made dramatic improvements in the way people work and talk. SuperCom channels a smartphone's capabilities into an unparalleled corrections supervision tool with the following features: (i) GPS, cell tower and Wi-Fi location tracking, (ii) RF tethering via Bluetooth, (iii) configurable GPS point frequency, (iv) GSM, CDMA and Wi-Fi communication support, (v) calendar management, (vi) persistent offender term notifications and reminders, (vii) smartphone voice, text, email, video communications, (viii) portable breath-alcohol integration and (ix) bio-identification, including face, fingerprint, and voice recognition.

PureBeacon. Our PureBeacon is a secure RF device designed to provide indoor surveillance of offenders when GPS is not suitable. In addition to preserving the PureTrack battery life, other features include (i) four years of battery life, (ii) encrypted RF protocol, (iii) Bluetooth support, (iv) proximity and case tamper detection, (v) an expansive range via a mesh network and (vi) a waterproof, dustproof and lightweight design.

PureMonitor Offender Electronic Monitoring Software. PureMonitor is our cloud-based software designed to deliver the information needed by officers. It enables quick navigation through e-interface to set schedules, generate reports, review tracking information and run efficiently and effectively. PureMonitor supports GPS monitoring, RF house arrest, alcohol monitoring, and biometric verification products. Officers can manage the complete platform of electronic monitoring tools through a single log-in. The PureMonitor platform leverages a consistent look, feel and functionality across the entire product line. It is designed to work with the agency's software suite, while integrated with existing case management, jail management and crime scene management systems. PureMonitor also contains a powerful suite of reports intended to allow complete and immediate visibility into any program. It supports static and mobile monitoring applications in and out of the office.

Inmate Monitoring System. We offer an inmate monitoring system that manages the authorized movement of inmates throughout a corrections facility. Validating the location of people and assets flowing through a corrections facility requires immense focus and dedicated resources, and inmate and officer safety depends on a system that ensures the right people are in the right place at the right time. We have developed a solution that comprehensively provides one system for all facility-based tracking concerns. Our inmate monitoring management solution is based on our cloud-based software and includes the DoorGuard tracking station, the PureTag RF bracelet and an optional Personnel Tag for staff members.

DoorGuard . DoorGuard is a tracking station that communicate the inmates' activities to the management system. A DoorGuard unit is installed at the entrance of each cell to monitor all entrances and exits. Units can also be placed in the corridors for additional tracking. The DoorGuard features include (i) accurate location tracking, (ii) Ethernet and Wi-Fi communications, (iii) advanced tamper detection, (iv) an encrypted RF signal, and (v) a waterproof and dustproof design.

Personnel Tag. The Personnel Tag is a highly secure RF tag worn by prison officers to obtain precise indoor location verification. It provides the following features: (i) panic button for immediate monitoring center alerts, (ii) advanced tamper detection, (iii) an encrypted RF signal, (iv) a four-year battery life and (v) a lightweight design.

Domestic Violence Victim Protection System. Our domestic violence victim protection system offers an additional line of defense for domestic violence victims, providing information regarding the location of the offender and the distance between the offender and the victim. Our solution incorporates the latest technology to develop a public safety solution that is easy to implement. Our domestic violence victim protection system is based on our PureMonitor cloud-based software and the PureTrack smartphone device, the PureTag RF bracelet and the PureProtect smartphone app.

PureProtect Smartphone App . Victims can download our PureProtect smartphone app to ensure that an offender is compliant with his or her restraining order. The PureProtect app identifies and alerts the victim of proximity violations without breaching the victim's privacy. Additionally, the app identifies offender movement and behavior patterns in order to prevent attacks. The PureProtect app supports both Android and iOS phones. It provides GPS, cell tower and RF proximity, indicates the direction of offender travel, includes GPS shielding and jamming detection, and is password protected. Alerts can be set up for a pre-defined distance so that an alert will be sent to local authorities if that distance is violated.

Secure Financial Services Products and Solutions

We offer a full suite of solutions, ranging from mobile wallet to mobile POS using a set of components and platforms to enable secure mobile payments and financial services. Our products and solutions include:

SuperPay™ Suite. SuperPay is a secure mobile payment hybrid suite that allows mobile users to securely make payments while supporting smartphones. SuperPay features a number of secure payment methods and utilizes biometric authentication features already integrated in advanced smartphones such as iPhone Touch ID, Samsung fingerprint scanner, or external biometric authentication.

PowaPOS. Our PowaPOS T25, using the advanced and simple to use PowaPOS SDK, is a fully integrated design incorporating retail peripherals into a compact and cost-effective footprint. Powered by a single power cord, the PowaPOS platform features a universal tablet mount, built in thermal printer, 2D barcode/QR code scanner, swiveling design with customer/clerk orientation sensor, and the PowaPOS Cash Drawer. The PowaPOS SDK works with iOS, Android and Windows POS software applications, as well as third party payment devices and many other retail peripherals.

Connectivity Products and Solutions

AVIDITY WBSac. The Avidity WBSac product series is a high-performance Wi-Fi indoor and outdoor access point series intended to enable mobile operators, business and enterprises to deliver high capacity and high quality Wi-Fi solutions.

- Multiple radios provide concurrent 802.11a/n/ac and 802.11b/g/n connections
- Up to 1300 Mbps combined data rate
- Dual concurrent MIMO, Dual-polarized antennas
- Self-configuring, plug-and-play deployment
- Smart MESH supported

BOLSTER WBSn. The Boster WBSn is intended to enable mobile operators, governments and enterprises to deliver high-quality wi-fi solutions in metro and rural areas, with significantly fewer bases stations, and much lower costs. Carrier-grade IP-68 is designed to provide a high standard of reliability, quality of service, security and manageability.

- Gigabit outdoor Wi-Fi support up to 450 Mbps, (per band) 900 Mbps for both bands, and maximum aggregated capacity of up to one Gigabit per unit
- Built in Access Controller, for flexible service planning
- Self-configuring, plug-and-play deployment

BreezeULTRA™ P6000. The BreezeULTRA family intends to provide high capacity product in wireless broadband Point to Point communication license-exempt market. BreezeULTRA offers a bold combination of capacity, performance, organic growth and ease of use capabilities.

- Optimized for high capacity applications
- Available in the Licensed Exempt frequencies: 5.1-5.9 GHz
- High Performance - supporting up to 500 Mbps net throughput and distances of up to 50km / 32 miles (w/high-gain antenna)
- Dynamic up-link /down-link bandwidth allocation
- Optimized performance of voice, video and data using four priorities of service
- Optimized interference mitigation and NLOS performance
- Ease of ordering, installation and configuration

Arena controller. Arena controller is an essential element for constructing large scale carrier wi-fi networks for hotspot/hotzones and cellular offloading services

- Cost effective and scalable network architecture with centralized control plane and distributed data plane
- Supporting up to 5000 AP's and 50,000 users per controller
- Control and manage AP and backhaul radio, including statistic and reporting
- Automatic AP units detection, configuration and firmware distribution
- Secured control layer management

- Hotspots/Hotzones and cellular offloading services
- Providing a single peer to the A A A

BreezeNET® B. BreezeNet B is a comprehensive and highly-proficient portfolio of wireless point-to-point solutions that offers long range and high-capacity support for high bandwidth applications. It is intended to provide efficient, reliable and secure communications for voice and real-time applications including building-to building connectivity and backhaul services.

- High capacity, point-to-point, robust outdoor wireless solution
- Flexible rate capacity options: B10, B14, B28, B100 reaching up to 100 Mbps gross
- Long reach: over 60 km
- Optimized uplink/downlink configuration to support different business applications such as public safety and video surveillance
- Robust performance in Non-Line-of-Sight (NLOS) environments
- Simple deployment, management and maintenance

Cyber Security SBU Products and Solutions

Safend's Encryption Suite is an easy to use security application based on a single, lightweight agent, providing a comprehensive solution that protects the organization's sensitive data residing on servers, PCs, laptops and detachable devices.

Safend's Data Protection Suite includes:

Safend Encryptor, which ensures that users' data is secure against loss or theft, by encrypting any data stored on internal hard disks.

Safend Protector, which applies customized, highly-granular security policies over all physical and wireless ports and devices. The Protector also mandates the encryption of all data transferred to removable storage devices and CD/DVD media.

Safend Inspector, which provides an additional protection layer for data transferred over approved data transfer channels, such as a white-listed storage device, an approved WiFi connection, or a machine's LAN connection. It enforces an accurate, data-centric security policy on transferred data, without disrupting legitimate business processes or disturbing end user productivity.

Safend Discoverer, which allows security administrators to locate sensitive data stored on organizational endpoints. It helps identify gaps in data protection and compliance initiatives, and provides insight into which security policies should be implemented, using other components of the Safend Data Protection Suite.

SafeMobile, which provides high-end security framework designed to meet cyber threats on both the mobile client and on an organization's main server. The solution in development enables rapid deployment of any application on a smart device leaving the security challenges to the framework.

Research and Development

Our research and development efforts have enabled us to offer our customers a broader line of products and solutions, primarily in the areas of our e-Gov, IoT and Connectivity, and Cyber Security. We intend to continue to research and develop new technologies and products for the e-Gov, Cyber Security, Connectivity and IoT SBUs. There can be no assurance that we can achieve any or all of our research and development goals.

During the years ended December 31, 2017, 2016 and 2015, we have invested, \$7.2 million, \$6.7 million, and \$3.7 million, respectively, in research and development. We anticipate that we will continue to invest up to 15% of our revenue in broadening our Cyber Security, e-Gov, IoT and Connectivity solutions and platforms. To expedite our development efforts, we may continue to acquire technologies from other companies, where we believe that such acquisition may cost effectively expedite our time to market of new products and solution.

Sales and Marketing

We sell our systems and products worldwide through local representatives, subsidiaries and distribution channels that include direct sales and marketing through representatives. We currently have 23 employees that are directly engaged in the sale, distribution and support of our products through centralized marketing offices in distinct world regions, including our employees and service providers located in the United States, Israel, Zambia, Angola, Mexico, Spain, Philippines, England and China who sell and support our products in their regions. We are also represented by several independent representatives, resellers and distributors.

We establish relationships with representatives, resellers and distributors through agreements that provide the marketing of our solutions and products. These agreements generally do not grant exclusivity to the representative, resellers or distributors, and some of them are not long-term contracts, do not have commitments for minimum sales, and could be terminated by the representative, reseller or distributor. We do not have agreements with all of our representatives, resellers and distributors.

Key Customer Contracts

On March 25, 2014, we entered into an agreement whereby we provide consulting services for the design, development, implementation, commissioning and maintenance of a government customer's new e-Government system. The agreement provides for a total contract sum of approximately \$24 million, payable upon the completion of certain milestones. Phase I of the agreement consists of the design and implementation of the new system for an aggregate contract price of approximately \$18 million. We received over 25% of this amount as advance payment for Phase I, and receive the remainder upon certain milestones during Phase I. Phase I is scheduled to last approximately 18 months. Under Phase II of this agreement, we will provide maintenance services for the five-year period following the system becoming operational in Phase I. The aggregate contract price for Phase II is \$6 million, which will be comprised of a 25% advance payment at the onset of Phase II, with the remaining 75% paid in quarterly installments. During 2016, we completed the Phase I milestones. Phase II commenced immediately after the Phase I was completed in mid-2016. The implementation was slower than expected due to some economic distress of our customer, which prevented a full resource allocation and budget needed to complete all milestones in a timely manner.

On September 22, 2014, we entered into an agreement as contractor to a private company that was awarded an e-Government project in another country, for the design and implementation of three e-Gov sub-systems along with support and maintenance services for the entire project. The agreement provides for a total contract price of approximately \$19 million, payable upon the completion of certain milestones. The initial phase of the contract consists of the design and implementation of the sub-systems for an aggregate contract price of \$14.3 million. We received \$5.6 million of this amount as advance payment for the initial phase, and receive the remainder upon certain milestones during this phase. The initial phase is scheduled to last approximately 9 months. Following the systems becoming operational in the initial phase, we will provide maintenance services for a three-year period. The aggregate contract price for service and maintenance during this period is \$4.5 million, which will be paid in quarterly installments. This contract contains customary termination provisions for both parties. In 2017, we completed the design and deployment stage, which was followed by a service and maintenance stage for a period of two years.

Principal Markets

The following table provides a breakdown of total revenue by geographic market for the three years ended December 31, 2017 (all amounts in thousands of dollars):

	2017	2016	2015
Africa	9,713	5,681	25,204
Europe	2,482	1,211	1,325
South and center America	8,778	1,803	1,420
United States	9,921	9,888	121
Israel	1,309	724	161
APAC	1,034	675	-
Other	27	43	109
Total	33,264	20,025	28,340

As part of the Company decision to switch from one technology segment, the e-government, into three separate technologies segments or Strategic business units; e-Gov, IoT, and Cyber Security, the Company acquired during 2016, four different companies with various technologies and customers base which enrich and strengthen the capacities and offering of each of the three segments.

Following the acquisitions, in 2016 the Company went thru a restructuring and merger process, and decided to report a transitional operation segments. Government, Connectivity and Cyber Security.

In 2017, the Company completed the restructuring process, and moved to report the new technologies segments. The following table provides a breakdown of total revenue by Segments for the three years ended December 31, 2017 (all amounts in thousands of dollars):

	Year ended December 31,		
	2017	2016	2015
e-Gov	18,232	7,020	27,404
IoT	11,264	10,833	345
Cyber Security	3,768	2,172	591
Total	33,264	20,025	28,340

The following table provides a breakdown of total revenue by products and services for the three years ended December 31, 2017 (all amounts in thousands of dollars):

	Year ended December 31,		
	2017	2016	2015
	\$	\$	\$
Revenues			
Products	19,396	7,631	23,113
Services	13,868	12,394	5,227
Total revenues	33,264	20,025	28,340

Customer Service and Support

Customer service includes mainly maintenance and support services and plays a significant role in our sales and marketing efforts. Our ability to maintain customer satisfaction is critical to building our reputation and increasing growth in our existing markets, as well as penetrating new markets. In addition, both customer contact and the customer feedback we receive in our ongoing support services provide us with information on customer needs and contribute to our product development efforts. We generally provide maintenance and support services under separate customized agreements after the customer project is completed. We provide services through customer training, local third-party service organizations, our subsidiaries, or our personnel, including sending appropriate personnel from any of our offices in Ecuador, Angola, Spain, France, England, Mexico, Philippines, Zambia, Tanzania, Columbia, Europe, the United States or Israel. We usually give each of our customers a twelve-month warranty for our products, and we offer additional extended warranty and maintenance programs. Costs incurred annually by us for product warranties have to date been insignificant; however, we expect that the warranty costs may increase going forward because our Connectivity, IoT, Cyber Security, and e-Gov solutions are more complex than our previously offered solutions and additional new products may be deployed.

Manufacturing and Availability of Raw Materials

Our manufacturing operations consist primarily of materials planning and procurement, quality control of components, kit assembly and integration, final assembly, and testing of fully-configured systems. A significant portion of our manufacturing operations consists of the integration and testing of off-the-shelf components. Most of our products and systems, whether or not they are manufactured by us, are configured to customer orders and undergo several levels of testing prior to delivery, including testing with the most current version of software.

We manufacture a range of IoT, Connectivity, and e-Gov products and systems. We outsource the manufacturing of: (i) printed circuit boards, or PCBs, to a number of different suppliers both in Israel and the Far East, (ii) enclosures to suppliers in Israel and the Far East and (iii) Teslin paper (a synthetic material used in making ID cards), laminates, inlays, modules, cards, from suppliers from the Far East, Europe, the United States and Israel. The electronic assembly of our products is done in Israel, Europe, and the United States. We sometimes commit to long-term relationships with such suppliers in exchange for receiving competitive pricing. All PCBs and enclosures are built to our engineering specifications. All PCBs are received in our manufacturing facilities in Israel and are tested, assembled, calibrated and put in appropriate enclosures by outsource manufacturers in Israel. Then they go through a validation and quality assurance process. Other components are off-the-shelf products, which we purchase from a number of different suppliers.

All of the activities for e-Gov, Connectivity, Cyber Security and IoT, such as purchasing, logistics, integration, training, installation and testing, are done by our employees. In locations where we do not have a local representative, we assign certain tasks to local third parties and service providers that we supervise. We have subcontracting agreements with local IT companies who have dedicated and experienced personnel. Such subcontractors provide all local support, maintenance services and spare parts to customers in a specified area.

Competition

We assess our competitive position from our experience and market intelligence, including third party competitive research materials. We believe that, G4S/Guidance, Serco, Attenti Monitoring, Buddi, iSecureTrac and SecureAlert are our potential competitors with respect to our IoT products and solutions. We believe that Face Technologies, 3M/Cogent, Zetes Industries, Mühlbauer Group, Oberthur Technologies, Safran Morpho, Gemalto, Bundesdruckerei GmbH and Nadra are our potential competitors in the e-Gov products and solutions market. We believe that Apple, Google, M-PESA, Giesecke & Devrient, Jumio, Infobip. VeriFone are the primary competitors for our SFS products. We believe that Symantec, Esset, Mcfee and Checkpoint are the primary competitors for our Cyber Security division. Due to the developing nature of the markets for our IoT, SPS, Connectivity, Cyber Security and e-Gov products and solutions and the ongoing changes in this market, the above-mentioned list may not constitute a full list of all of our competitors and additional companies may be considered our competitors.

Our management expects competition to intensify as the markets in which our products and solutions compete continue to develop. Some of our competitors may be more technologically sophisticated or have substantially greater technical, financial or marketing resources than we do, or may have more extensive pre-existing relationships with potential customers. Although our products and services combine technologies and features that provide customers with complete and comprehensive solutions, we cannot assure that other companies will not offer similar products in the future or develop products and services that are superior to our products and services, achieve greater customer acceptance or have significantly improved functionality as compared to our products and services. Increased competition may result in our experiencing reduced margins, loss of sales or a decrease in market share.

Intellectual Property

Our ability to compete is dependent on our ability to develop and maintain the proprietary aspects of our technology. We rely on a combination of patents, trademarks, copyrights, trade secrets and other intellectual property laws, as well as employee and third-party nondisclosure agreements, licensing and other contractual arrangements. However, these legal protections afford only limited protection for our proprietary technology and intellectual property.

In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as do the laws of Israel or the United States. Our method of protecting our intellectual property rights in Israel, the United States or any other country in which we operate may not be adequate to fully protect such rights.

Currently we own 52 issued patents in the United States and 74 issued patents in the rest of the world.

Trademarks

We rely on trade names, trademarks and service marks to protect our name brands. We hold registered trademarks in several countries including Israel, the United States and the United Kingdom. We rely on trade names, trademarks and service marks to protect our name brands. We have registered trademarks for PureRFid[®], SuperCom[®], Vuance[®], EduGate[®], and “Vuance Validate your World”[®] and have applied for trademarks for PureMonitor[™], PureCom[™], PureTag[™], PureTrack[™], AAID[™], SmartID[™], MAGNA[™] and PureArrest[™].

Licenses

We license technology and software, such as operating systems and database software, from third parties for incorporation into our systems and products, and we expect to continue to enter into these types of agreements for future products. Our licenses are either perpetual or for specific terms.

As part of the acquisition of the SmartID division, we also received an irrevocable, worldwide, non-exclusive, non-assignable and non-transferable license to use certain intellectual property from OTI in connection with our past, ongoing and future e-Gov projects.

Government Regulation

Generally, we are subject to the laws, regulations and standards of the countries in which we operate and/or sell our products, which vary substantially from country to country. The difficulty of complying with these laws, regulations and standards may be more or less difficult than complying with applicable U.S. or Israeli regulations and the requirements may differ.

C. ORGANIZATIONAL STRUCTURE

The diagram below shows our active subsidiaries and affiliates as of May 14, 2018:

SuperCom Inc.

SuperCom Inc., incorporated in Delaware, is responsible for our sales, marketing and support in the United States, and wholly owns its subsidiaries, LCA Inc.

Leaders in Community Alternatives, Inc. (“LCA”)

LCA Inc., incorporated in California, was acquired by us on January 1, 2015, and provides electronic monitoring and community-based services under contracts with various government agencies.

SuperCom Slovakia A.S. (“SuperCom Slovakia”)

SuperCom Slovakia, incorporated in Slovakia, was established to implement a national documentation project in the Republic of Slovakia. SuperCom Slovakia is 66% owned by us and 34% owned by EIB Group a.s., a privately held Czech company. While we have a 66% ownership interest in SuperCom Slovakia, our voting power in SuperCom Slovakia is 50%. The company has no activity.

Safend Ltd.

Safend Ltd., incorporated in Israel, was acquired by us on March 13, 2016, and is a global data security company with a broad range of competitive and well-known encryption and data protection solutions.

Prevision Ltd.

Prevision Ltd., incorporated in Israel, was acquired by us on November 12, 2015, and is an international provider of Cyber Security services and solutions.

Alvarion Technologies Ltd.

Alvarion Ltd., incorporated in Israel, was acquired by us on May 18, 2016, and is a global provider of wireless broadband products and wi-fi networks

D. PROPERTY, PLANTS AND EQUIPMENT

We do not own any real estate. We lease approximately 4,300 square meters of office and warehousing premise in Herzliya Pituach, Israel under a four-year lease expiring on June 30, 2018. According to the agreement, the monthly fee (including management fees) is approximately \$131,000.

Currently, the Company is in negotiation for lease agreement for its offices in Israel.

We lease approximately 200 square meters of office premise in New York for our U.S. subsidiary, SuperCom Inc. We lease approximately 1,200 square meters of office premise in California for our U.S. subsidiary, LCA Inc.

We do not lease any facilities for any other subsidiary or our branch in Ecuador.

Our total annual rental fees, for 2017, 2016 and 2015 were \$2,065,000, \$2,062,000, and \$884,000, respectively.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion of our results of operations should be read together with our consolidated financial statements and the related notes, which appear elsewhere in this Annual Report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Annual Report.

Overview

We are a global provider of traditional and e-Gov solutions, IoT products and solutions, Cyber Security products and services, secure payment solutions and connectivity products and solutions to governments, private and public organizations throughout the world.

Our product depth and global presence was expanded significantly with our acquisition of the SmartID division of OTI in December 2013, with our acquisition of Prevision, Safend, LCA, PowaPOS business, and Alvarion. Our operations grew significantly following the acquisition of the SmartID division and the 2016 acquisitions, especially our head count and research and development and sales and marketing expenses, as we did our best to respond to the new market and customer needs.

We operate internationally and have subsidiaries in the New York, San Francisco, Israel and a branch in Ecuador.

General

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in other currencies are re-measured into dollars in accordance with the principles set forth in Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 830, "*Foreign Currency Translation*." The majority of our sales are made outside Israel in dollars. In addition, substantial portions of our costs are incurred in dollars. Since the dollar is the primary currency of the economic environment in which we and certain of our subsidiaries operate, the dollar is our functional and reporting currency and, accordingly, monetary accounts maintained in currencies other than the dollar are re-measured using the foreign exchange rate at the balance sheet date. Operational accounts and non-monetary balance sheet accounts are measured and recorded at the exchange rate in effect at the date of the transaction. The financial statements of certain subsidiaries, whose functional currency is not the dollar, have been translated into dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive income (loss).

Key Factors Affecting Our Business

Our operations and the operating metrics discussed below have been, and will likely continue to be, affected by certain key factors as well as certain historical events and actions. The key factors affecting our business and our results of operations include, among others, competition, government regulation, the build out of infrastructures, macro-economic and political risks, churn rate, impact of currency fluctuations and inflation, effective corporate tax rate, conditions in Israel and trade relations. For further discussion of the factors affecting our results of operations, see Item 3D “Risk Factors.”

Explanation of Key Income Statement Items, Significant Revenues and Expenses

General

2017 was a year of many changes for the Company, we continue to merge and optimized the operation of the 2016 acquired businesses which required us among other to invest in R&D efforts to bring such acquisitions to a level where the products can be ready to be marketed. This optimized restructured group created opportunities for the group to access additional markets but required us to use resources that have yet to yield income to the group. We believe that comparing between 2017, 2016 and 2015 cannot be done effectively without understanding the changes and the restructuring efforts invested.

Revenues

Some of our products and services are tailored to meet the specific needs of our customers. In order to satisfy these needs, the terms of each agreement, including the duration of the agreement and prices for our products and services, differ from agreement to agreement.

We generate a portion of our revenues from existing e-Gov, Cyber Security and IoT long term services contracts, providing customers with raw materials, software upgrades, support, maintenance, training and installation. Revenues from the sale of such services are generally recognized following delivery of such services and upon achievement of milestones as approved by our customers.

During 2016 we acquired LCA, Alvarion and Safend that increased our suit of products from which we generated revenues, revenues from the sale of such products are generally recognized upon delivery.

Costs and Operating Expenses

For the year 2017 our costs were affected by the attention of management to continue the consolidation of the businesses we acquired during the 2016 as was described in the General section above.

Our research and development expenses consist of salaries, subcontractor expenses, related depreciation costs and overhead allocated to research and development activities.

Our selling and marketing expenses consist primarily of salaries and related costs, commissions earned by sales and marketing personnel, trade show expenses, promotional expenses and overhead costs allocated to selling and marketing activities, as well as depreciation expenses and travel costs.

Our general and administrative expenses consist primarily of salaries and related costs, allocated overhead costs, office supplies and administrative costs, fees and expenses of our directors, information technology, depreciation, and professional service fees, including legal, insurance and audit fees.

Our operating results are significantly affected by, among other things, the timing of contract awards and the performance of agreements. As a result, our revenues and income may fluctuate substantially from quarter to quarter, and we believe that comparisons over longer periods of time may be more meaningful. The nature of certain of our expenses is mainly fixed or partially fixed and any fluctuation in revenues will generate a significant variation in gross profit and net income.

Operating Results

The following table sets forth selected our consolidated income statement data for each of the three years ended December 31, 2016, expressed as a percentage of total revenues.

	2017	2016	2015
Revenues	100%	100%	100.0%
Cost of revenues	61.2	87.2	36.9
Gross profit	38.8	12.8	63.1
Operating expenses:			
Research and development	21.8	33.5	12.9
Selling and marketing	24.3	49.8	23.3
General and administrative	18.4	36.3	13.9
Other expenses (income)	(6.1)	(48.9)	7.7
Total operating expenses	58.4	70.7	57.9
Operating income (loss)	(19.6)	(57.9)	5.3
Financial (expenses) income, net	(1.6)	(1.5)	(1.0)
Income (loss) before income tax	(21.2)	(59.4)	4.3
Income tax (expense) benefit	1.2	(10.4)	(0.7)
Net income (Loss)	(20.0)	(69.9)	3.6

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Revenues

Our total revenues in 2017 were \$33,264,000 compared to \$20,025,000 in 2016, a increase of 66%. As was explained in the General section above, the composition of the revenues has changed during 2017 as follow; (i) the e-Gov unit revenue was \$18,232,000 in comparison to \$7,020,000 in 2016, an increase of 160% which is attributed to a large e-Gov contract, and an increase in our recurring revenue from existing customers, (ii) the IoT and Connectivity Unit revenue was \$11,264,000 in comparison to \$10,833,000 in 2016, an increase of 4% which is attributed to new contracts implementation in Europe and USA, and an moderate increase in our recurring revenue from existing customers; (iii) the Cyber Security Unit revenue was \$3,768,000 in comparison to \$2,172,000 in 2016, an increase of 73% which is attributed to new licenses orders from new customers in Europe and USA, and an increase in our recurring revenue from existing customers.

Gross Profit

Our gross profit in 2017 was \$12,913,000 compared to \$2,564,000 in 2016, an increase of 404%. The gross profit margin for 2017 was 38.8% compared to 12.8% in 2016. The increase in our gross margin is mainly attributable to (i) a change in the mix of revenues from subsidiaries acquired in 2016 as explained above, (ii) an increase of revenue from Cyber Security division which attributed with very high gross margin, (iii) an increase of revenue from steady states e-Gov contracts which attributed with very high gross margin, (iv) completion of large e-Gov deployment contract with low gross margin, (iv) and increase of revenue from higher margin IoT long term contracts.

Expenses

Our operating expenses decreased in 2017 to \$19,429,000 from \$24,678,000 in 2016 (excluding gain from bargain acquisitions in the amount of \$10,515,000), a decrease of 21%. The decrease in operating expenses was primarily due to (i) an increase of 8% in research and development expenses, (ii) a decrease of 16% in general and administrative expenses mainly related to the significant decrease in our administration headcount, (iii) a decrease of 19% in sales and marketing expenses mainly related to the significant decrease in our sales and marketing headcount derived from sales force and network optimization. Operating expenses excluding gain from bargain acquisitions is a non-gaap measure with the most comparable GAAP measure being operating expenses. The reconciling item between this non-gaap measure and operating expenses is the gain from the bargain acquisition. We believe this non-gaap measure helps the reader in understanding the performance of our operations for the current year given the non-recurring nature of the gain from bargain acquisitions.

Our research and development expenses increased to \$7,238,000 in 2017 from \$6,718,000 in 2016, an increase of 8%. The increase in our research and development expenses was primarily due to increased efforts in developing our connectivity, IoT, cyber security and e-Gov products and solutions.

Our general and administrative expenses decreased to \$6,113,000 in 2017 from \$7,277,000 in 2016, a decrease of 16%. The decrease in general and administrative expenses was primarily due to the process of optimization of the expenses of the four subsidiaries we acquired in 2016.

Other income were \$2,021,000 in 2017, compared to other expenses of \$713,000 in 2016. Other income in 2017 represent mainly of recovery from preacquisition receivable amounted \$1,384,000 and change in valuation of contingent consideration amounted \$593,000. Other expenses in 2016 represent mainly bad debt provision in that amounts, The bad debt provision we recorded is based on management's estimation with respect to the collectability of certain debt.

During 2016 we had bargain profit from the acquisitions of Safend and Alvarion in 2016 in the amount of \$10,515,000, such bargain profit was not recognized in 2017.

Financial (Expenses) Income, net

We had financial expenses, net of \$538,000 in 2017 compared to financial expenses, net of \$303,000 in 2016. Financial expenses consist primarily of bank fees related to guarantees issued to our customers and exchange rate expenses. The increase in financial expenses was due to changes in foreign currency rates, mainly due the major changes of 9.8% in the exchange rate of the NIS against the U.S. dollar in 2017.

Income Tax

We recorded a tax benefit of \$393,000 for the year ended December 31, 2017 compared to a tax expense of \$2,091,000 in 2016, mainly due to changes in valuation allowance.

Net Income

As a result of the factors described above, our net loss for the year ended December 31, 2017 was \$6,661,000 compared to a net loss of \$13,993,000 in 2016. This decrease is mainly related to the decrease in our cost of revenue and operating expenses and a large increase in revenue for the year ended December 31, 2017.

Year Ended December 31, 2016 Compared with Year Ended December 31, 2015

Revenues

Our total revenues in 2016 were \$20,025,000 compared to \$28,340,000 in 2015, a decrease of 29.3%. As was explained in the General section above, the composition of the revenues has changed during 2016 such that revenues from our legacy e-Gov has decreased due to the fact that we completed customer's deployment of approximately 96% in average of three of our e-Gov division's projects for which the Company recorded \$3,154,000 in 2016 compared to \$14,120,000 in 2015. Other revenues generated in 2016 were from our acquisitions such as revenue from Government sector was \$16,738,000 from Cyber Security was \$1,760,000 and from Connectivity sector was \$1,528,000.

Gross Profit

Our gross profit in 2016 was \$2,564,000 compared to \$17,894,000 in 2015, a decrease of 86%. The gross profit margin for 2016 was 12.8% compared to 63.1% in 2015. The decrease in our gross margin is mainly attributable to (i) a change in the mix of revenues from subsidiaries acquired in 2016 as explained above, (ii) slow adjustment of labor costs to the new levels of revenue in the e-Gov division, (iii) negative gross margin of 12% on revenues from our branch in Ecuador due to a 45% change in import taxes applied to our products, (iv) delay of 6 months in the deployment of one of our significant contracts due to customer restraint, which resulted in a significant labor expenses of over \$1.2 million.

Expenses

Our operating expenses (excluding gain from bargain acquisitions in the amount of \$10,515,000) increased in 2016 to \$24,678,000 from \$16,401,000 in 2015, an increase of 50.4%. The increase in operating expenses was primarily due to (i) an increase of 83% in research and development expenses and an increase of 85% in general and administrative expenses mainly related to the significant increase in our headcount and increase in stock based compensation. The above increase was offset by a gain from bargain acquisition of \$10,515,000 attributed to the acquisitions of Safend and Alvarion in 2016. Operating expenses excluding gain from bargain acquisitions is a non-gaap measure with the most comparable GAAP measure being operating expenses. The reconciling item between this non-gaap measure and operating expenses is the gain from the bargain acquisition. We believe this non-gaap measure helps the reader in understanding the performance of our operations for the current year given the non-recurring nature of the gain from bargain acquisitions.

Our research and development expenses increased to \$6,718,000 in 2016 from \$3,669,000 in 2015, an increase of 83%. The increase in our research and development expenses was primarily due to our increased efforts in developing our connectivity, IOT, SFS, cyber security and e-Gov products and solutions. As explained above, we invested in our newly acquired businesses in an effort to be ready to market in a timely manner.

Our general and administrative expenses increased to \$7,277,000 in 2016 from \$3,947,000 in 2015, an increase of 84.4%. The increase in general and administrative expenses was primarily due to the general and administration combination of the four subsidiaries we acquired in 2016, which was followed by a process of optimization of the expenses of such subsidiaries we undertook starting July 2016.

Other expenses were \$713,000 in 2016, compared to other expenses of \$2,174,000 in 2015. Other expenses in 2016 and 2015 represent bad debt provision in that amounts, The bad debt provision we recorded is based on management's estimation with respect to the collectability of certain debt.

During 2016 we had bargain profit from the acquisitions of Safend and Alvarion in 2016 in the amount of \$10,515,000.

Financial (Expenses) Income, net

We had financial expenses, net of \$303,000 in 2016 compared to financial expenses, net of \$277,000 in 2015. Financial expenses consist primarily of bank fees related to guarantees issued to our customers and exchange rate expenses. The decrease in financial expenses was due to changes in foreign currency rates, mainly due the moderate changes in the exchange rate of the NIS against the U.S. dollar in 2016.

Income Tax

We recorded a tax expenses of \$2,091,000 for the year ended December 31, 2016 compared to a tax expense of \$197,000 in 2015, mainly due to adjustment to deferred tax to its realizable value.

Net Income

As a result of the factors described above, our net loss for the year ended December 31, 2016 was \$13,993,000 compared to a net income of \$1,019,000 in 2015. This decrease is mainly related to the increase in our cost of revenue and operating expenses and a large increase in income tax expense for the year ended December 31, 2016.

Seasonality

Our operating results are generally not characterized by a seasonal pattern.

Impact of Currency Fluctuation and of Inflation

We report our financial results in dollars and receive payments in dollars for most of our sales, while a portion of our expenses, primarily salaries, are paid in NIS. Therefore, the dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is not offset, or is offset on a lagging basis, by a devaluation of the NIS in relation to the dollar.

Monetary accounts maintained in currencies other than the U.S. dollar are re-measured into U.S. dollars at the exchange rate prevailing at the end of the reporting period in accordance with provisions of ASC 835-10. All transaction gains and losses from the re-measurement of monetary balance sheet items are reflected in the statements of operations as financial income or financial expenses as appropriate.

When the rate of inflation in Israel exceeds the rate of devaluation of the NIS against the dollar, the dollar cost of our operations in Israel increase. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected. Any increase in the value of the NIS in relation to the dollar also has the effect of increasing the dollar value of any NIS assets, unless such assets are linked to the dollar, and the dollar amounts of any unlinked NIS liabilities and expenses. We cannot assure you that we will not be materially and adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of the devaluation lags behind inflation in Israel.

Conversely, depreciation of the NIS in relation to the dollar has the effect of reducing the dollar amount of any of our expenses or liabilities that are payable in NIS, unless those expenses or payables are linked to the dollar. Depreciation of the NIS in relation to the dollar has the effect of reducing the dollar amount of any of our expenses or liabilities and also has the effect of decreasing the dollar value of any asset which consists of NIS or receivables payable in NIS, unless the receivables are linked to the dollar.

The following table presents information about the rate of inflation in Israel, the rate of devaluation or appreciation of the NIS against the dollar, and the rate of inflation in Israel adjusted for the devaluation:

Year ended December 31,	Israeli inflation rate %	NIS devaluation (appreciation) rate %	Israeli inflation adjusted for devaluation (appreciation) %
2015	(1.0)	0.3	(1.3)
2016	(0.2)	(1.5)	1.3
2017	0.4	(9.8)	10.2

Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations, particularly larger periodic devaluations, may have an impact on our profitability and period-to-period comparisons of our results. We cannot assure you that in the future our results of operations may not be materially adversely affected by currency fluctuations. Historically, we have not used any hedging instruments, but in the future if we expect the fluctuation to have major effect on our operations, we may use such instruments.

Conditions in Israel

We are organized under the laws of, and our principal executive offices and research and development facilities are located in, the State of Israel. See Item 3D “Key Information – Risk Factors – Risks Relating to Operations in Israel” for a description of governmental, economic, fiscal, monetary or political policies or factors that have materially affected or could materially affect our operations.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its members. Israel is also a member of the Organization for Economic Co-operation and Development, or the OECD, an international organization whose members are governments of mostly developed economies. The OECD’s main goal is to promote policies that will improve the economic and social well-being of people around the world. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export products covered by such programs either duty-free or at reduced tariffs.

Israel and the European Union Community concluded a Free Trade Agreement in July 1975, which confers certain advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and specified non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as EFTA, established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a new agreement with the European Union, which includes redefinition of rules of origin and other improvements, including providing for Israel to become a member of the research and technology programs of the European Union. In recent years, Israel has established commercial and trade relations with a number of other nations, including China, India, Russia, Turkey and other nations in Eastern Europe and Asia.

Effective Corporate Tax Rate

The Israeli corporate tax rate was 26.5% in 2014, 26.5% in 2015, 25% in 2016, 24% in 2017, and 23% in 2018 and thereafter. For the years ended December 31, 2017 and 2016 we had losses, and therefore the effective tax rate was mostly affected by changes in deferred tax. Our effective tax rate as for the year ended December 31, 2015 was 16%.

Our taxes outside Israel are dependent on our operations in each jurisdiction as well as relevant laws and treaties. Under Israeli tax law, the results of our foreign consolidated subsidiaries cannot be consolidated for tax.

B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2017, our cash and cash equivalents totaled \$1,037,000, compared to \$1,708,000 as of December 31, 2016. As of December 31, 2017, our restricted bank deposits totaled \$1,063,000, related mainly bid and performance guarantees and lease agreements.

As of December 31, 2017, the Company has accumulated deficit \$50,476, and net cash used in operating activities of \$1,983. In addition the Company has excess of current assets over current liability of \$9,453.

During 2017 and until end of June 2018, the Company undergo a merger optimization process to an efficient structure to operate thru three new business segments, supported by common operation services. Following the optimization process, for the year 2018 the Company is expecting to reduce it expenses thru reduction in its headcount and overhead costs, mainly over the year 2018, to be resulted in reduction of operating expenses, including significant reduction of R&D expenses.

The Company believe that based on the above mentioned significant cost saving and based on cash stream from the Company's current contracts with customers around the world, it will generate positive cash flow from operating activities, and will be able to fund its operations for at least next 12 months.

In addition, the Company current related parties had granted the Company an additional line of credit of up to \$1.5 million, and committed not to demands repayment of its current loan within the next 12 months.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2017	2016	2015
	(in thousands)		
Net cash used in operating activities	(1,983)	(11,045)	(3,674)
Net cash used in investing activities	(1,481)	(4,663)	(1,598)
Net cash provided by (used in) financing activities	2,793	(4,830)	22,729
Net increase(decrease) in cash and cash equivalents	(671)	(20,538)	17,457
Cash and cash equivalents at beginning of period	1,708	22,246	4,789
Cash and cash equivalents at end of period	1,037	1,708	22,246

Net cash used in operating activities for the year ended December 31, 2017 was \$1,983,000, compared to net cash used by operating activities of \$11,045,000 during the year ended December 31, 2016, an increase of 9,062,000. The decrease was primarily due to lower negative net income for the year.

Net cash used in investing activities during the year ended December 31, 2017, was \$1,481,000 compared to \$4,663,000 during the year ended December 31, 2016. The decrease was primarily due to the acquisition of the Powapos assets, Safend, Alvarion, and LCA in 2016 and the absent of any new acquisition during 2017

Net cash provided by financing activities during the year ended December 31, 2017, was \$2,793,000, and consisted mainly of loans from related parties and banks, compared to \$4,830,000 used in, during the year ended December 31, 2016, which consisted mainly of payments under contingent considerations and repurchases of the Company's shares.

Discussion of Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and judgments on an ongoing basis.

We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from these estimates.

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our significant accounting principles are presented within Note 2 to our consolidated financial statements. While all the accounting policies impact the financial statements, certain policies may be viewed to be critical. These policies are those that are most important to the portrayal of our financial condition and results of operations. Actual results could differ from those estimates. Our management believes that the accounting policies which affect the more significant judgments and estimates used in the preparation of our consolidated financial statements and which are the most critical to fully understanding and evaluating our reported results include the following:

- revenue recognition;
- allowance for doubtful accounts;
- deferred taxes;
- debt to equity conversion; and
- contingencies.

Revenue Recognition

We generate the majority of our revenues from existing e-Gov, Cyber Security and IoT long-term services contracts, providing our customers with support, maintenance, training and installation. In addition, we generate some of our revenues from the sale of IoT, Cyber Security, Connectivity and e-Gov products, and IoT and e-Gov turnkey solutions.

Services and products sales are recognized when persuasive evidence of an agreement exists, services have been rendered or delivery of the product has occurred, the fee is fixed or determinable, collectability is reasonably assured, and only if inconsequential or perfunctory performance obligations, if any, remain. If the product requires specific customer acceptance, revenue is deferred until customer acceptance occurs or the acceptance provision lapses. We are not obligated to accept returned products or issue credit for returned products, unless a product return has been approved by us in advance and according to specific terms and conditions.

Software Licensing and Maintenance, the company applies software revenue recognition in accordance to ASC 985-650 to all transactions except those where no software is involved. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Persuasive evidence is generally a binding purchase order or license agreement. Delivery occurs when product is delivered via a license key for our license upgrade agreements.

For arrangements with multiple elements, including software licenses, maintenance and/or services, revenue is allocated and deferred in amounts equivalent to the vendor specific objective evidence ("VSOE") of fair value for the undelivered elements. VSOE of fair value is based upon the price for which the undelivered element is sold separately. Safend was unable to establish VSOE of fair value for its PCS and recognize revenues from license sale pro-ratably over the PCS term.

We recognized certain long-term contract revenues in accordance with ASC Topic 605-35, "Construction-Type and Production-Type Contracts". Pursuant to ASC Topic 605-35, revenues from these contracts are recognized under the percentage of completion method. We measure the percentage of completion based on output criteria, such as contract milestones, percentage of engineering completion or number of units shipped, as applicable, to each contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first identified, in the amount of the estimated loss on the entire contract. As of December 31, 2017, no such estimated losses were identified.

We believe that the use of the percentage of completion method is appropriate in these cases since most of our contracts specify milestone achievements in details so as to allow determination of progress made towards completion.

In addition, our contracts include provisions that clearly specify the enforceable rights of the parties to the contract, the consideration to be exchanged and the manner and terms of settlement.

In contracts that do not meet all of the conditions mentioned above, we utilize zero estimates of profits. Equal amounts of revenue and cost are recognized until results can be estimated with sufficient accuracy.

Revenues and costs recognized pursuant to ASC Topic 605-35 on contracts in progress are subject to management estimates. Actual results could differ from these estimates. As of December 31, 2017 and 2016, we have long term contracts that will continue to be deployed in 2018.

Our warranty period is typically 12 months. Based primarily on our historical experience, we do not provide for warranty costs when revenue is recognized since such costs are not material.

With respect to our e-Gov business, In some contracts we provide our customers with a license to issue IDs, passports and driver licenses and we are entitled to receive royalties upon the issuance of each form of document by our customers. Such royalties are recognized when the issuances are reported to us, usually on a monthly basis, for the year 2017 we had no such contract .

Allowance for Doubtful Accounts

The allowance for doubtful accounts is determined with respect to specific amounts we have determined to be doubtful of collection. In determining the allowance for doubtful accounts, we consider, among other things, our past experience with such customers and the information available regarding such customers.

We perform ongoing credit evaluations of our customers' financial conditions and we require collateral as we deem necessary. An allowance for doubtful accounts is determined with respect to those accounts that we have determined to be doubtful of collection. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required. The allowance for doubtful accounts was \$2,341,000 and \$2,014,000 at December 31, 2017 and 2016, respectively.

Deferred Taxes

We account for income taxes, in accordance with the provisions of FASB ASC 740, "Income Taxes" under the liability method of accounting. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax basis of assets and liabilities at enacted tax rates in effect in the year in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts expected to be realized. Expectation about realization of deferred tax assets related to losses carried forward are subjective and require estimates of future income in the territories in which such losses have been generated. Changes in those estimations could lead to changes in the expected realization of the deferred tax assets and to an increase or decrease in valuation allowances.

Business Combinations

Business combinations are accounted for by applying the acquisition method. According to this method, the identifiable assets and liabilities of the acquired business are recognized and recorded at fair value on the acquisition date. The acquisition date is the date on which we obtain control over the acquiree.

The cost of the acquisition is the aggregate fair value of the assets transferred, liabilities incurred and equity interests issued, if any, by us on the date of acquisition. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, we recognize changes in fair value of the contingent consideration in the statement of operations. Contingent consideration is stated as a financial liability in the balance sheet.

We recognize goodwill at acquisition according to the fair value of the consideration transferred, including any amounts recognized in respect of rights that do not confer control in the acquiree as well as the fair value at the acquisition date of any pre-existing equity right in the acquiree, less the net amount of the identifiable assets acquired and the liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not systematically amortized. In case of excess of fair value of the assets acquired over the consideration paid a gain from bargain gain is recognized.

Costs associated with an acquisition that were incurred in the business combination, such as advisory, legal, valuation and other professional or consulting fees, other than those associated with an issue of debt or equity instruments connected to the business combination, are recognized as expenses in the period the services are received.

In December 2013, we completed a follow-on public offering of 3,450,000 of our ordinary shares and received net proceeds of \$12,043,000. We used \$8.8 million of such proceeds to fund our acquisition of the SmartID division of OTI on December 26, 2013. We use the remaining proceeds for finance our operating activities, especially to accelerate the sales and marketing and research and development efforts.

In June 2015, we completed a follow-on public offering of 2,415,000 of our ordinary shares and received net proceeds of \$27.1 million. We used the proceeds for general corporate purposes, including working capital.

During the three years ended December 31, 2017, 2016 and 2015, our capital expenditures totaled approximately \$1,468,000, \$1,887,000, and \$2,640,000 (not including our acquisition of the LCA, Safend, Alvarion, the PowaPOS assets), respectively.

We currently do not have significant capital spending or purchase commitments other than with respect to the contingent and earn-out payments associated with our acquisition of the SmartID division, and Alvarion Ltd.

C. RESEARCH AND DEVELOPMENT

Our research and development efforts have enabled us to offer our customers with a broader line of products and solutions for the e-Gov, IoT and Connectivity, and Cyber Security divisions. As of December 31, 2017, the number of employees in our research and development activities was 47. We spent \$8,405,000 (out of which \$1,167,000 were capitalized as cost of software to be sold), \$8,205,000 (out of which \$1,487,000 were capitalized as cost of software to be sold), \$5,768,000 (out of which \$2,099,000 were capitalized as cost of software to be sold) in 2017, 2016 and 2015, respectively. These amounts were spent on the development or improvement of our technologies and products, primarily in the areas of IoT, e-Gov, Cyber Security, and Connectivity. We intend to continue to research and develop new technologies and products for the IoT, e-Gov, Cyber Security, and Connectivity. There can be no assurance that we can achieve any or all of our research and development goals.

D. TREND INFORMATION

See discussion in Parts A and B of “Item 5. Operating and Financial Review and Prospects” for a description of the Trend information relevant to us.

E. OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our material contractual obligations and commitments as of December 31, 2017:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Purchase obligations	247	247	-	-	-
Operating lease obligations	1,607	1,164	379	64	-
Total contractual cash obligations	\$ 1,854	1,411	379	64	-

Operating lease obligations represent commitments under lease agreement for our facility and the facilities of certain subsidiaries. Purchase obligations represent purchase orders to an account payable, purchase obligations and lease agreements for facilities. We are not a party to any capital leases.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Set forth below are the name, age, principal position and a biographical description of each of our directors:

Name	Age	Position
Tsviya Trabelsi	60	Chairperson of the Board
Menachem Mirski	62	Director (2)(3)
Avi Ayash	46	External Director (1)(2)(3)
Shlomit Sarusi	60	External Director (1)(2)(3)

- (1) “External Director” as defined in the Israeli Companies Law
- (2) Member of the Audit Committee
- (3) Member of the Compensation Committee

Tsviya Trabelsi, our Chairperson, is married to Arie Trabelsi, our Chief Executive Officer, and Ordan Trabelsi, our President, SuperCom Inc. and Barak Trabelsi, our Vice President, IoT, are their sons.

Tsviya Trabelsi has served as a director since November 15, 2012 and pursuant to the approval of our shareholders, as the Chairperson of our Board since December 27, 2012. Prior to that, Mrs. Trabelsi served as our Chairperson from July 2010 until December 2011. Mrs. Trabelsi is a certified public accountant with financial management experience in Israel and the United States. Mrs. Trabelsi is currently the CFO of Sigma Wave Ltd., or Sigma, a wireless, security and internet focused company. Mrs. Trabelsi holds a BA in Economics and Accounting from the University of Tel Aviv.

Menachem Mirski has served as a director of our company since July 25, 2010 and is the founder and a partner of Raz - El Ltd., a software and system development company located in Israel. He has more than 28 years of experience and expertise as a software developer and project manager for embedded real time systems, including RF-based systems. Mr. Mirski holds a Bachelor of Science in Computer and Electrical Engineering from Ben-Gurion University.

Shlomit Sarusi has served as an external director and as a member of our audit committee since December 27, 2012. She is the founder and the CEO of HCC Ltd, an e-commerce and smart e-payment solutions provider. Mrs. Sarusi has more than 15 years of experience in the development and deployment of advanced e-Commerce, e-Payments and CRM - Mobile and Internet based solutions. Mrs. Sarusi has led research, development and implementation of solutions for various departments of the Israeli Defense Forces for over 14 years. Mrs. Sarusi holds a BA degree in Statistics and an MBA degree from Ben-Gurion University.

Avi Ayash has served as an external director and as a member of our audit committee since December 8, 2011. Mr. Ayash is the owner of Inbarim, a consulting firm for corporations and employees in the area of actuarial compensation, pensions and insurance and serves as a member of the board of directors of the ROM fund, as an external director and as the chairman of its audit committee and a member of its investment committee. Mr. Ayash has more than 18 years of experience in financial, pension and insurance consulting. Mr. Ayash holds a BA degree and an MA degree in Economics from The Hebrew University, a degree in Actuarial Studies from Haifa University and a pension consultant license.

We are managed by our board of directors. Pursuant to our Articles of Association, the number of directors may be determined from time to time by the board of directors, and unless otherwise determined, the number of directors comprising the board of directors will be between four and ten. Directors are elected for a one year term ending at the following annual general meeting of shareholders, except for our external directors, who are elected for three year terms in accordance with the Israeli Companies Law. However, if no directors are elected at an annual meeting, then the incumbents shall be deemed re-elected at the same meeting. The General Meeting may resolve that a director be elected for a period longer than the time ending at the next annual meeting but not longer than that ending at the third next annual meeting. The board of directors elects one of its members to serve as the Chairman.

Executive Officers and Key Employees

Our executive officers and certain key employees are:

Name	Age	Position
Arie Trabelsi*	60	President, Chief Executive Officer and acting Chief Financial Officer
Barak Trabelsi*	32	Vice President, IoT
Ad Attias	34	President, Prevision Ltd
Eli Basson*	56	Vice President, e-ID
Galit Gilo*	60	Vice President, Land and GIS
Ordan Trabelsi	33	President, SuperCom Inc.
Gil Alfi	39	Vice President Sales, Safend Ltd
Diane Harrington	58	Executive Director, LCA Inc.

* Executive officer

Arie Trabelsi. Mr. Trabelsi joined us in November 2010 as President and Chief Executive Officer. He served as our Chief Executive Officer from November 1, 2010 until November 12, 2011 and from June 1, 2012 to date, and served as Chairman of our board of directors from December 12, 2011 to December 27, 2012. He has more than 29 years of experience in the global wireless, Internet and communications industries. Prior to joining SuperCom, he led Sigma Wave Ltd., a wireless, security, and internet focused company and our controlling shareholder, from November 1999. Mr. Trabelsi holds a BSc. degree in Electrical and Computer Engineering from Ben Gurion University and a MSc. degree in Computer Engineering from Drexel University, Philadelphia, Pennsylvania.

Barak Trabelsi. Mr. Trabelsi joined us in January 2013 as director of new products development. Previously and commencing in June 2011, he served as Senior Product Manager in Equinox Ltd. Prior to that, for four years, he served as VP of R&D of Sigma Wave, a wireless, security and internet focused company. Mr. Trabelsi has expertise in big data, cyber, mobile and internet networks technologies, and experience in product development and strategies. Mr. Trabelsi holds a BSc. degree in Computer and Business from the Tel Aviv University, and an M.B.A. degree from Tel Aviv University.

Elli Basson. Mr. Basson has been associated with SuperCom and OTI's SmartID division for the 16 years, and brings over 27 years of experience in customer management, R&D and sales and marketing positions. Mr. Basson brings extensive experience in the governmental e-Gov markets including projects' implementations, project financing and initiated e-Gov technology platform implemented in several projects. Prior to joining SuperCom in January, 2014, Eli served as the VP of the Smart ID Division at OTI since December, 2006. Prior to OTI, Eli served for 10 years in various positions at SuperCom, Eldor Computers and Orbotech. Mr. Basson holds a Master's degree in Management and a B.Sc. degree in Electrical Engineering from the Technion - Israel Institute of Technology.

Galit Gilo. Mrs. Galit Gilo joined SuperCom Group in 2015 as GIS and Land director. Until joining us, Mrs. Galit Gilo served as the GM of Sivan Design Nigeria where she personally served as the GM. Prior to that, she served as IT director of KIKA israel. Mrs. Galit Gilo brings over more than 26 years of experience in computer engineering in GIS, finance, municipalities areas. She is an expert in computer science. Mr. Galit Gilo holds Bsc degree in Computer science from the Technion and Ma degree from the Tel-Aviv university.

Ordan Trabelsi. Mr. Trabelsi joined us in May 2013 as VP Business Development and U.S. Operations. Previously and commencing in June 2009, he served as CEO of Sigma Wave Ltd., a wireless, security and internet focused company and our controlling shareholder. From 2006 until December 2012, he was co-founder and CEO of Klikot, a global social networking company. Mr. Trabelsi has expertise in security, cyber, mobile and internet networks technologies, and experience in strategic merger and acquisition and product strategies. Mr. Trabelsi holds a BSc. degree in Software and Electrical Engineering from the Technion - Israel Institute of Technology, and an M.B.A. degree from the Columbia University Business School, New York.

Gil Alfi. Mr. Alfi joined SuperCom Group in 2016 as VP Sales and Technology of Safend. Until joining us, Mr. Alfi served as Regional Sales Director at Safend where he personally served as Regional Sales Director in different regions in Europe and regions in Africa Prior to that, he served as Director of product management of different telco and wireless companies. Mr. Alfi brings over more than 18 years of experience in different technology companies as technology lead in different R&D teams. Mr. Alfi holds B.Sc. degree in Computer Science & Mathematics and MSc degree in Computer Science from Bar-Ilan University

Diane Harrington Ms. Harrington was promoted into the position of Executive Director of LCA, Inc. in 2017, several years after joining SuperCom Group in 2014 as Director of Treatment of LCA, Inc. Prior to this, Ms. Harrington held a variety of senior management level positions with multiple criminal justice organizations in both the public and private sectors. Her thirty plus years of experience encompasses program management, quality assurance, grant writing and business development, project development, community relations and financial management. Ms. Harrington holds a B.S. degree in Criminal Justice - Correctional Administration from the University of New Haven

Ad Attias . Mr. Attias joined SuperCom Group in 2015 as COO of Prevision. Until joining us, Mr. Attias served as Senior Security Specialist at Prevision. Prior to that, he served as Security Expert in an Elite unit of IDF. Mr. Attias brings over more than 11 years of experience in different IT and Security technology. Mr. Attias holds B.Sc. degree in Computer Science from Academic College of Tel-aviv-Yaffo.

B. COMPENSATION

The following table sets forth all compensation we paid with respect to all of our directors and executive officers as a group for the year ended December 31, 2017.

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
All directors and executive officers as a group (10 persons)	\$ 1,072,000	\$ 105,000

The aggregate amount of compensation paid by us to our board members and executive officers as a group for the year ended December 31, 2017 was approximately \$1,177,000. This sum includes amounts paid for salary and social benefits. In addition, we have provided automobiles to certain of our executive officers at our expense. As of December 31, 2017, we had set aside approximately \$105,000 to provide pension, retirement or similar benefits for certain of our executive officers.

The monthly fee for a director (other than with respect to our Chairman of the Board) is \$1,500 and for external director a monthly fee of approximately \$1,143 plus approximately \$708 for every board or audit committee meeting attended.

As of December 31, 2017, our directors and executive officers as a group, then consisting of 9 persons, held options to purchase an aggregate of 24,000 ordinary shares, of which 18,000 were exercisable as of December 31, 2017, at an exercise price of \$3.09 per share. All the options will expire during the year 2019.

Summary compensation table

The below table presents the compensation, on an individual basis, of our five most highly compensated office holders during or with respect to the year ended December 31, 2017, as required by regulations promulgated under the Companies Law.

Name and Position	Salary ⁽¹⁾	Bonus and commissions	Equity-Based Compensation ⁽²⁾	Total
Eli Basson Vice President, e-Gov	217,849	-	-	217,849
Guy Karsenti Vice President, Cyber	206,856	-	-	206,856
Ziv Koren Vice President, Africa	179,399	34,725	-	214,124
Billy Gurevich Commercial Counsel	169,066	-	61,200	230,266
Gil Alfi Vice President Sales, Safend Ltd	151,771	102,746	-	254,517

(1) Amounts reported in this column include salary, social benefits, including those mandated by applicable law.

(2) Amounts reported in this column represent the expense recorded in our audited consolidated financial statements for the year ended December 31, 2017 based on the grant date fair value in accordance with accounting guidance for stock-based compensation. See Note 11C to our audited consolidated financial statements for the year ended December 31, 2017.

C. BOARD PRACTICES

Corporate Governance Practices

Our board of directors considers good corporate governance to be central to our effective and efficient operations. The following table lists our directors, the positions they hold with us and the dates they were first elected or appointed:

Name	Position	Date Service Began	Date of Expiration of Current Term
Tsviya Trabelsi	Director and Chairperson of the Board	November 15, 2012	Next annual general meeting
Avi Ayash	External Director	December 8, 2011	December 8, 2020
Shlomit Sarusi	External Director	December 27, 2012	December 27, 2018
Menachem Mirski	Director	July 25, 2010	Next annual general meeting

Our Articles of Association provide that the number of directors may be determined from time to time by the board of directors, and unless otherwise determined, the number of directors comprising the board of directors will be between four and ten. Our board of directors is presently comprised of five members, two of whom were elected as external directors under the provisions of the Israeli Companies Law. Our Articles of Association provide that the majority of the directors appointed to the board of directors will be independent directors. Mrs. Sarusi, Mr. Ayash and Mr. Mirski satisfy the applicable requirements for independence under our Articles of Association.

All directors hold office until their successors are elected at the next annual general meeting of shareholders, except for our external directors, Mr. Ayash, who will hold office until December 2020 and Mrs. Shlomit Sarusi, who will hold office until December 2018.

Alternate Directors

As permitted under the Companies Law, our Articles of Association provide that any director may, subject to the board of directors' approval, by written notice to us, appoint another person who is qualified to serve as a director to serve as an alternate director. Under the Companies Law, a person who is not qualified to be appointed as a director, a person who is already serving as a director or a person who is already serving as an alternate director may not be appointed as an alternate director. Nevertheless, a director may be appointed as an alternate director for a member of a committee of the board of directors so long as he or she is not already serving as a member of such committee. An external director may not appoint an alternate director unless such alternate director is eligible to be an external director and has either "financial and accounting expertise" or "professional expertise," depending on the qualifications of the external director he or she is replacing. See "— External Directors." Similarly, an independent director within the meaning of the Companies Law may not appoint an alternate director unless such alternate director is eligible to be an independent director within the meaning of the Companies Law. An alternate director may be appointed for one meeting or until notice is given of the cancellation of the appointment.

External Directors

The Companies Law requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint at least two external directors. The Companies Law provides that a person may not be appointed as an external director if the person, or the person's relative, partner, employer or an entity under that person's control, has or had during the two years preceding the date of appointment any affiliation with the company, or any entity controlling, controlled by or under common control with the company. The term "relative" means a spouse, sibling, parent, grandparent, child or child of spouse or spouse of any of the above as well as a sibling, brother, sister or parent of the foregoing relatives. In general, the term "affiliation" includes an employment relationship, a business or professional relationship maintained on a regular basis, control and service as an office holder. Furthermore, if the company does not have a controlling shareholder or a shareholder holding at least 25% of the voting rights, "affiliation" also includes a relationship, at the time of the appointment, with the chairman of the board, the chief executive officer, a substantial shareholder or the most senior financial officer of such company. Regulations promulgated under the Companies Law include certain additional relationships that would not be deemed an "affiliation" with a company for the purpose of service as an external director. In addition, no person may serve as an external director if the person's position or other activities create, or may create, a conflict of interest with the person's responsibilities as director or may otherwise interfere with the person's ability to serve as director. If, at the time an external director is appointed, all current members of the board of directors are of the same gender, then that external director must be of the other gender. A director of one company may not be appointed as an external director of another company, if a director of the other company is acting as an external director of the first company at such time.

At least one of the elected external directors must have “accounting and financial expertise” and any other external director must have “accounting and financial expertise” or “professional qualification,” as such terms are defined by regulations promulgated under the Companies Law. However, Israeli companies listed on certain stock exchanges outside Israel are not required to appoint an external director with “accounting and financial expertise” if a director with accounting and financial expertise who qualifies as an independent director for purposes of audit committee membership under the laws of the foreign country in which the stock exchange is located serves on its board of directors. All of the external directors of such a company must have “professional qualification.”

The external directors are elected by shareholders at a general meeting. The shareholders voting in favor of their election must include at least a simple majority of the shares voted by shareholders other than controlling shareholders or shareholders who have a personal interest in the election of the external director (unless such personal interest is not related to such person’s relationship with the controlling shareholder). This majority requirement will not be required if the total number of shares of such non-controlling shareholders and disinterested shareholders who vote against the election of the external director represent 2% or less of the voting rights in the company.

In general, under the Companies Law, external directors serve for a three-year term and may be reelected to two (2) additional three-year terms. However, Israeli companies listed on certain stock exchanges outside Israel may appoint an external director for additional terms of not more than three years subject to certain conditions. Such conditions include the determination by the audit committee and board of directors that, in view of the director’s professional expertise and special contribution to the company’s board of directors and its committees, the appointment of the external director for an additional term is in the best interest of the company. External directors can be removed from office only by the same special percentage of shareholders that can elect them, or by a court, and then only if the external directors cease to meet the statutory qualifications with respect to their appointment or if they violate their fiduciary duty to the company.

Pursuant to the Companies Law, the term of office of an external director may be extended by the shareholders following the initial three year term for two additional three years terms, at the nomination of either the board of directors or any shareholder(s) holding at least 1% of the voting rights in the company. If the board of directors proposed the nominee, the reelection must be approved by the shareholders in the same manner required to appoint external directors for an initial term, as described above. If such reelection is proposed by shareholders, such reelection requires the approval of the majority of the shareholders voting on the matter, excluding the votes of any controlling shareholder and other shareholders having a personal interest in the matter as a result of their relationship with the controlling shareholder(s), provided that the aggregate votes cast by shareholders who are not controlling shareholders and do not have a personal interest in the matter as a result of their relationship with the controlling shareholder(s) who voted in favor of the nominee constitute more than 2% of the voting rights in the company.

If the vacancy of an external directorship causes a company to have fewer than two external directors, the company’s board of directors is required under the Companies Law to call a special general meeting of the company’s shareholders as soon as possible to appoint such number of new external directors so that the company thereafter has two external directors.

Each committee of the board of directors that is authorized to exercise powers vested in the board of directors must include at least one external director and the audit committee and the financial statements review committee must include all the external directors. An external director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

Audit Committee

Under the Companies Law, the board of directors of any public company must establish an audit committee. The chairman of the audit committee must be an external director. The audit committee must consist of at least three directors and must include all of the external directors, the majority of which must be independent directors. Such independent directors must meet all of the standards required of an external director and may not serve as a director for more than nine consecutive years (a cessation of service as a director for up to two years during any nine year period will not be deemed to interrupt the nine year period). Under the Companies Law, the audit committee and the compensation committee may not include: the chairman of the board of directors; any director employed by the company or providing services to the company on an ongoing basis; a controlling shareholder or any of the controlling shareholder’s relatives; and any director who rendered services to the controlling shareholder or an entity controlled by the controlling shareholder. Any person who is not permitted to be a member of the audit committee may not be present in the meetings of the audit committee unless the chairman of the audit committee determines that such person’s presence is necessary in order to present a specific matter. However, an employee who is not a controlling shareholder or relative of a controlling shareholder may participate in the audit committee’s discussions but not in any vote, and at the request of the audit committee, the secretary of the company and its legal counsel may be present during the meeting.

Under the Companies Law, an audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two external directors are serving as members of the audit committee and at least one of the external directors was present at the meeting at which an approval was granted.

The role of the audit committee, pursuant to the Companies Law, includes:

- Monitoring deficiencies in the management of the company, including in consultation with the independent auditors or the internal auditor, and advising the board of directors on how to correct such deficiencies. If the audit committee finds a material deficiency, it will hold at least one meeting regarding such material deficiency, with the presence of the internal auditor or the independent auditors but without the presence of the senior management of the company. However, a member of the company's senior management can participate in the meeting in order to present an issue which is under his or her responsibility.
- Determining, on the basis of detailed arguments, whether to classify certain engagements or transactions as material or extraordinary, as applicable, and therefore as requiring special approval under the Companies Law. The audit committee must make such determination according to principles and guidelines predetermined on an annual basis.
- Determining if transactions (excluding extraordinary transactions) with a controlling shareholder, or in which a controlling shareholder has a personal interest, are required to be rendered pursuant to a competitive procedure.
- Deciding whether to approve engagements or transactions that require the audit committee approval under the Companies Law.
- Determining the approval procedure of non-extraordinary transactions, following classification as such by the audit committee, including whether such specific non-extraordinary transactions require the approval of the audit committee.
- Examining and approving the annual and periodic working plans of the internal auditor.
- Overseeing the company's internal auditing and the performance of the internal auditor and confirming that the internal auditor has sufficient tools and resources at his disposal, taking into account, among other factors, the special requirements of the company and its size;
- Examining the scope of work of the independent auditor and its pay, and bringing such recommendations on these issue before the board.
- Determining the procedure for addressing complaints of employees regarding shortcomings in the management of the company and ensuring the protection of employees who have filed such complaints.
- Determining, with respect to transactions with the controlling shareholder or in which such controlling shareholder has a personal interest, whether such transactions are extraordinary or not, whether there is an obligation to conduct a competitive process under the supervision of the audit committee and whether, prior to entering into such transaction, the company should conduct any other process that the audit committee may deem fit, all taking into account the type of the company. The audit committee may set such qualifications up to one year in advance.
- Determining the manner of approval of transactions with the controlling shareholder or in which the controlling shareholder has a personal interest which (i) are not negligible transactions (pursuant to the committee's determination) and (ii) are not qualified by the committee as extraordinary transactions.

Under the Exchange Act and NASDAQ Stock Market listing requirements, we are required to maintain an audit committee consisting of at least three independent directors, each of whom is financially literate and one of whom has accounting or related financial management expertise. Our board of directors has affirmatively determined that each member of our audit committee qualifies as an "independent director" for purposes of serving on an audit committee under the Exchange Act and NASDAQ listing requirements. Our board of directors has determined that each of Mrs. Sarusi and Mr. Ayash qualify as an "audit committee financial expert," as defined in Item 407(d) (5) of Regulation S-K. All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and NASDAQ Stock Market. Mrs. Sarusi and Messrs. Ayash and Mirski are the members of our audit committee.

Compensation Committee

Effective December 2012, under an amendment to the Companies Law, effective as of December 12, 2012, each publicly traded company is required to establish a compensation committee, whose role is to: (i) recommend to the board of directors a compensation policy for office holders, (ii) make recommendations to the shareholders once every three years on the approval of the continued validity of the compensation policy; (iii) recommend updates to the compensation policy from time to time and examine its implementation; (iv) determine whether to approve the terms of the service and employment of office holders that require the committee's approval; and (v) exempt a related party transaction from the requirement for shareholders' approval. The compensation committee also has oversight authority over the actual terms of employment of directors and officers and may make recommendations to the board of directors and the shareholders (where applicable) with respect to deviation from the compensation policy that was adopted by the company. Under Israeli law, our compensation committee will consist of no fewer than three members, including all of our external directors (who must constitute a majority of the members of the committee), with the remainder of the members of the compensation committee to be directors whose terms of service and employment were determined pursuant to the applicable regulations. The amendment imposes the same restrictions on the actions and membership in the compensation committee as are discussed above under "Audit Committee" with respect to, among other things, the requirement that an external director serve as the chairman of the committee and the list of persons who may not serve on the committee or participate in its meetings. We have established a compensation committee that is currently composed of Mrs. Sarusi, Mr. Ayash and Mr. Mirski.

Internal Auditor

Under the Companies Law, the board of directors must appoint an internal auditor, proposed by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's activities comply with the law and orderly business procedure. Under the Companies Law, the internal auditor may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of the company's independent accounting firm, or its representative. Our board of directors appointed Yoav Ben-Dor & Co, as our internal auditor.

Management Employment Agreements

We maintain written employment agreements with substantially all of our key employees. These agreements provide, among other matters, for monthly salaries, our contributions to Managers' Insurance, an Education Fund and severance benefits. All of our agreements with our key employees are subject to termination by either party upon the delivery of notice of termination as provided therein. We maintain a service agreement with our chairperson of the board of directors. We do not have written agreements with any other director providing for benefits upon the termination of his or her service to us.

Approval of Certain Transactions

Fiduciary Duties of Office Holders

The Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An "office holder" is defined in the Companies Law as a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a fiduciary duty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (ii) all other information of importance pertaining to the foregoing actions. The fiduciary duty includes (i) avoiding any conflict of interest between the office holder's position in the company and any other position he holds or his personal affairs, (ii) avoiding any competition with the company's business, (iii) avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and (iv) disclosing to the company any information or documents relating to the company's affairs that the office holder has received due to his position as an office holder.

Disclosure of Personal Interests of an Office Holder; Approval of Transactions with Office Holders

The Companies Law requires that an office holder promptly, and no later than the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any documents in their position, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company's profitability, assets or liabilities, 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 or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company's articles of association, however, a transaction that is adverse to the company's interest may not be approved. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself, and under certain circumstances shareholder approval may also be required. A director who has a personal interest in a transaction that is considered at a meeting of the board of directors or the audit committee may not be present during the board of directors or audit committee discussions and may not vote on the transaction, unless the transaction is not an extraordinary transaction or the majority of the members of the board or the audit committee have a personal interest, as the case may be. In the event the majority of the members of the board of directors or the audit committee have a personal interest, then the approval of the general meeting of shareholders is also required.

Approval of a Compensation Policy for Office Holders

The Companies Law and the regulations adopted thereunder require the compensation committee to adopt a policy for director and office holders. In adopting the compensation policy, the compensation committee must take into account factors such as the office holder's education, experience, past compensation arrangements with the company, and the proportional difference between the person cost of compensation and the average cost of compensation of the company's employees.

The compensation policy must be approved at least once every three years at the company's general meeting of shareholders, and is subject to the approval of a majority vote of the votes of the shareholders present and voting at a shareholders' meeting, provided that either: (i) such majority includes at least a majority of the votes of all shareholders who are not controlling shareholders and do not have a personal interest in the approval of the compensation policy, present and voting at such meeting (excluding abstentions); or (ii) the total number of ordinary shares of non-controlling shareholders and shareholders who do not have a personal interest in the approval of the compensation policy, voting against the resolution does not exceed 2% of the aggregate voting rights in the company.

The Board may approve the compensation policy even if such policy was not approved by the shareholders, provided that the compensation committee and the board of directors resolve, based on detailed consideration of the compensation policy that approval of the policy, is in the best interest of the company, despite the fact that it was not approved at the shareholders' meeting.

The compensation policy shall serve as the basis for decisions concerning the financial terms of employment or engagement of officer holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business and its long-term strategy, and creation of appropriate incentives for executives. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation committee must also consider among others, the ratio between the cost of terms offered to the relevant director or office holder and the average and median cost of compensation of the other employees of the company, including those employed through manpower companies, the effect of disparities in salary upon work relationships in the company, the possibility of reducing variable compensation at the discretion of the board of directors; the possibility of setting a limit on the exercise value of non-cash variable compensation; and as to severance compensation (in excess of those promulgated by applicable labor law), the period of service of the director or office holder, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contribution towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policy must also include the link between variable compensation and long-term performance and measurable criteria, the relationship between variable and fixed compensation, and the upper limit for the value of variable compensation, the conditions under which a director or an office holder would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements, the minimum holding or vesting period for variable, equity-based compensation whilst referring to appropriate a long-term perspective based incentives; and maximum limits for severance compensation.

Once a compensation policy is properly adopted, the Companies Law requires the compensation policy to be approved by the company's compensation committee, with subsequent approval of the board of directors. In addition, compensation of the directors and the chief executive officer is also subject to the approval of the shareholders at a general meeting. The approval of the compensation of the chief executive officer that complies with the compensation policy is subject to the same majority requirements as the approval of a transaction between a company and its controlling shareholder. Where the director is also a controlling shareholder, the requirements for approval of transactions with controlling shareholders apply. The terms of employment of the company's directors and executive officers must satisfy the requirements of the compensation policy in respect of matters relating to compensation. Any deviations from the compensation policy in respect of the compensation of the office holders require the approval of the compensation committee, the board of directors and the shareholders. If the deviation is with respect to the compensation of the chief executive officer then such approval must be made by the majority of the shareholders provided that such majority includes the majority of the votes of the non-controlling shareholder and other shareholders who have personal interest in the proposal (unless such personal interest is not related to the controlling shareholder) present and voting (excluding abstention). Such special majority is not required if the number of votes of the non-controlling shareholders and shareholder who do not have personal interest in the proposal as aforesaid is lower than 2% of the aggregate voting rights in the company.

External directors of the company are prohibited from receiving, directly or indirectly, any compensation from the company, other than for their services as external directors pursuant to the provisions and limitations set forth in regulations promulgated under the Companies Law, which compensation is determined prior to their appointment and may not be changed throughout the term of their service as External directors (except for certain exceptions set forth in such regulations).

Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders

Pursuant to the Companies Law, the disclosure requirements regarding personal interests that apply to directors and executive officers also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, but excludes a shareholder whose power derives solely from its position on the board of directors or any other position at the company. A person is presumed to be a “controlling shareholder” if it holds or controls, by itself or together with others, one half or more of any one of the “Means of Control” of the company. “Means of Control” is defined as any one of the following: (i) the right to vote at a general meeting of the company, or (ii) the right to appoint directors of the company or its chief executive officer. For the purpose of related party transactions, under the Companies Law, a controlling shareholder is also a shareholder who holds 25% or more of the voting rights if no other shareholder who holds more than 50% of the voting rights. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated.

Certain shareholders also have a duty of fairness toward the company. These shareholders include any controlling shareholder, together with any shareholder who knows that it has the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an officer holder of the company or exercise any other rights available to it under the company’s articles of association with respect to the company. The Companies Law does not define the substance of this duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty of fairness.

An extraordinary transaction between a public company and a controlling shareholder, or in which a controlling shareholder has a personal interest, including a private placement in which the controlling shareholder has a personal interest, and the terms of engagement of the company, directly or indirectly, with a controlling shareholder or a controlling shareholder’s relative (including through a corporation controlled by a controlling shareholder), regarding the company’s receipt of services from the controlling shareholder, and if such controlling shareholder is also an officer holder of the company, regarding his or her terms of employment, require the approval of a company’s audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. Such transaction must be elected by a majority vote of the Ordinary Shares present and voting at a shareholders’ meeting, provided that either: (i) such majority includes at least a majority of votes held by all shareholders who do not have a personal interest in such transaction, present and voting at such meeting (excluding abstentions); or (ii) the total number of votes of shareholders who do not have a personal interest in such transaction voting against the approval of the transaction, does not exceed 2% of the aggregate voting rights in the company.

Pursuant to the Companies Law, the audit committee of the company should determine in connection with such transaction if it requires rendering pursuant to a competitive procedure or pursuant to other proceedings. See “Audit Committee” above.

To the extent that any such transaction with a controlling shareholder or his relative is for a period extending beyond three years, shareholder approval is required once every three years, unless, in respect to certain transactions, the audit committee determines that the longer duration of the transaction is reasonable under the circumstances.

Pursuant to regulations promulgated pursuant to the Companies Law, a transaction with a controlling shareholder that would otherwise require approval of the shareholders is exempt from shareholders’ approval if each of the audit committee and the board of directors determine that the transaction meets certain criteria that are set out in specific regulations promulgated under the Companies Law. Under these regulations, a shareholder holding at least 1% of the issued share capital of the company may require, within 14 days of the publication of such determination, that despite such determination by the audit committee and the board of directors, such transaction will require shareholder approval under the same majority requirements that otherwise apply to such transactions.

The Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold greater than a 45% interest in the company, unless there is another shareholder holding more than a 45% interest in the company. These requirements do not apply if, in general, (i) the acquisition was made in a private placement that received shareholder approval, (ii) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, if there is not already a 25% or greater shareholder of the company, or (iii) was from a shareholder holding a 45% interest in the company which resulted in the acquirer becoming a holder of a 45% interest in the company if there is not already a 45% or greater shareholder of the company.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a public company’s outstanding shares or a class of shares, the acquisition must be made by means of a tender offer for all of the outstanding shares or a class of shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to the acquirer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares. The Companies Law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer. However, in the event of a full tender offer, the offeror may determine that any shareholder who accepts the offer will not be entitled to appraisal rights. Such determination will be effective only if the offeror or the company has timely published all the information that is required to be published in connection with such full tender offer pursuant to all applicable laws.

Duties of Shareholders

Under the Companies Law, a shareholder has a duty to refrain from abusing his or her power in the company and to act in good faith and in a customary manner in exercising its rights and performing its obligations to the company and other shareholders, including, among other things, when voting at meetings of shareholders on the following matters:

- an amendment to the company's articles of association;
- an increase in the company's authorized share capital;
- a merger; and
- the approval of related party transactions and acts of office holders that require shareholder approval.

A shareholder also has a general duty to refrain from discriminating against other shareholders.

In addition, certain shareholders have a duty to act with fairness towards the company. These shareholders include any controlling shareholder, any shareholder who knows that his or her vote can determine the outcome of a shareholder vote, and any shareholder that, under a company's articles of association, has the power to appoint or prevent the appointment of an office holder. The Companies Law does not define the substance of this duty except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness.

Exculpation, Insurance and Indemnification of Directors and Officers

Exculpation of Office Holders

Under the Companies Law, an Israeli company may not exculpate an office holder from liability for breach of his duty of loyalty, but may exculpate in advance an office holder from liability to the company, in whole or in part, for a breach of his duty of care, provided the articles of association of the company allow it to do so. Our Articles of Association allow us to exculpate our office holders from liability towards us for breach of duty of care to the maximum extent permitted by law.

Office Holder Insurance

Our Articles of Association provide that, subject to the provisions of the Companies Law, we may enter into a contract for the insurance of the liability of any of our office holders for any act done by him or her by virtue of being an office holder, in respect of any of the following:

- a breach of duty of care towards us or any other person;
- a breach of fiduciary obligations towards us, provided that the office holder acted in good faith and had reasonable grounds to assume that his or her act would not be to our detriment;
- a financial liability imposed on him or her in favor of another person; or
- any other event for which insurance of an office holder is or may be permitted.

Indemnification of Office Holders

Our Articles of Association provide that we may indemnify an office holder for the following cases of liability and expenses incurred by him or her as a result of an act done by him or her by virtue of being an office holder:

- financial liability imposed upon said office holder in favor of another person by virtue of a decision by a court of law, including a decision by way of settlement or a decision in arbitration which has been confirmed by a court of law;
- reasonable expenses of the proceedings, including lawyers' fees, expended by the office holder or imposed on him by the court for:
 - (1) proceedings issued against him by or on behalf of our company or by a third party;

- (2) criminal proceedings in which the office holder was acquitted;
- (3) criminal proceedings in which he was convicted in an offense, which did not require proof of criminal intent; or
- (4) any other liability or expense for which the indemnification of an officer holder is not precluded by law.

We have obtained directors' and officers' liability insurance for the benefit of our office holders. In addition, we have granted indemnification letters to our office holders.

Limitations on Exculpation, Insurance and Indemnification

The Companies Law provides that a company may not exculpate or indemnify an office holder, or enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his or her duty of loyalty towards the company unless, with respect to insurance coverage, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his or her duty of care if the breach was done intentionally or recklessly;
- any act or omission done with the intent to derive an illegal personal benefit; or
- any fine levied against the office holder.

Required Approvals

In addition, under the Companies Law, any exculpation of, indemnification of, or procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, if the beneficiary is a director, an additional approval by our shareholders is required.

D. EMPLOYEES

As of December 31, 2017, 2016 and 2015, we had 215, 246 and 138 full-time employees, respectively (not including service providers). The following table describes our employees and the employees of our subsidiaries by department.

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Research, Development & Operations	161	173	97
Marketing and Sales	29	36	23
Administration	25	37	18
Total	215	246	138

Over the past three years, the number of our employees by geographic area was as follows:

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Israel & Europe	128	148	132
United States	87	98	5
Other	-	-	1
Total	215	246	138

From time to time, we have engaged temporary employees to fill open positions. These temporary employees, however, historically have not comprised a material number of our employees.

Our Israeli employees are not part of a collective bargaining agreement and none of them are represented by labor unions. However, in Israel we are subject to certain labor statutes and national labor court precedent rulings, as well as to certain provisions of collective bargaining agreements between the Histadrut, which is the General Federation of Labor in Israel, and the Coordinating Bureau of Economic Organizations, including the Industrialists' Association. These provisions of collective bargaining agreements are applicable to our employees by virtue of expansion orders issued in accordance with relevant labor laws by the Israeli Ministry of Labor and Welfare and which apply such agreement provisions to our employees even though they are not directly part of a union that has signed a collective bargaining agreement.

The labor statutes and labor court rulings that apply to our employees principally concern the minimum wage laws, procedures for dismissing employees, determination of severance pay, leaves of absence (such as annual vacation or maternity leave), sick pay and other conditions for employment. The expansion orders which apply to our employees principally concern the requirement for mandatory pension schemes, transportation allowance, and annual recreation allowance, the lengths of the workday and workweek, and periodic automatic adjustment of wages relative to increases in the Consumer Price Index in Israel. We provide our employees with benefits and working conditions that comply with the required minimums. Israeli employees and employers are also required to pay pre-determined sums which include a contribution to national health insurance to the Israel National Insurance Institute, which provides a range of social security benefits.

Generally, all nonexempt adult male citizens and permanent residents of Israel, under the age of 40, or older for reserves officers or citizens with certain occupations, as well as certain female adult citizens and permanent residents of Israel, are obligated to perform annual military reserve duty and are subject to being called for active duty at any time under emergency circumstances. Some of our officers and employees are obligated to perform annual reserve duty. While we have operated effectively under these requirements since we began operations, no assessment can be made as to the full impact of such requirements on our workforce or business if conditions should change, and no prediction can be made as to the effect on us of any expansion of such obligations.

Most of our employees have entered into confidentiality agreements. We have also granted certain employees options to purchase shares of our ordinary shares under our option plan. We consider our relationship with our employees to be good and we have never experienced a general strike or work stoppage.

E. SHARE OWNERSHIP

Beneficial Ownership by Executive Officers and Directors

The following table sets forth certain information as of May 8, 2018 regarding the beneficial ownership of our ordinary shares by each of our directors and all of our executive officers and directors as a group.

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Tsviya Trabelsi(3)	4,021,672	26.84%
Menachem Mirski	—	—
Avi Ayash	—	—
Shlomit Sarusi	—	—
All executive officers and directors as a group (8 persons)	4,131,172	27.66%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 14,958,339 ordinary shares issued and outstanding as of May 14, 2018.
- (3) Sigma Wave Ltd. is controlled by family members of Mrs. Tsviya Trabelsi, our Chairman of the Board and by her husband, Mr. Arie Trabelsi. As such, Mrs. And Mr. Trabelsi may be deemed to beneficially own the 4,021,672 ordinary shares beneficially held by Sigma Wave Ltd. The address of Sigma Wave Ltd. is Tsufit 7, Caesarea, 38900, Israel.

Share Option Plans

In 2003, we adopted the SuperCom Ltd. 2003 Israeli Share Option Plan, a stock option plan under which we now issue stock options, or the Option Plan. The Option Plan is intended to provide incentives to our employees, officers, directors and/or consultants by providing them with the opportunity to purchase our ordinary shares. The Option Plan is subject to the provisions of the Companies Law, administered by the audit committee, and is designed: (i) to comply with Section 102 of the Israeli Tax Ordinance or any provision which may amend or replace it and the rules promulgated thereunder and to enable us and grantees thereunder to benefit from Section 102 of the Israeli Tax Ordinance and the Commissioner's Rules; and (ii) to enable us to grant options and issue shares outside the context of Section 102 of the Israeli Tax Ordinance. Options granted under the Option Plan will become exercisable ratably over a period of three to five years or immediately in certain circumstances, commencing with the date of grant. The options generally expire no later than 10 years from the date of grant. Any options that are forfeited or canceled before expiration become available for future grants. As of December 31, 2017, 236,277 options were exercisable and 331,660 options were outstanding.

As a result of an amendment to Section 102 of the Israeli Tax Ordinance as part of the 2003 Israeli tax reform, and pursuant to an election made by us thereunder, capital gains derived by optionees arising from the sale of shares issued pursuant to the exercise of options granted to them under Section 102 after January 1, 2003 will generally be subject to a flat capital gains tax rate of 25%. However, as a result of this election, we will no longer be allowed to claim as an expense for tax purposes the amounts credited to such employees as a benefit when the related capital gains tax is payable by them, as we had previously been entitled to do under Section 102.

On June 27, 2007, our Compensation Committee and the board of directors approved a new option plan under which we may grant stock options to our U.S. employees and our subsidiaries. Under this option plan, we may grant both qualified (for preferential tax treatment) and non-qualified stock options. On August 15, 2007, this option plan was approved by our shareholders at the general shareholders meeting.

In June 2013, the Option plan was extended for another period of 10 years, until December 31, 2023.

During 2017, we have not issued any options to purchase of our ordinary shares to our executive officers.

A summary of our stock option activity and related information is as follows:

	Year ended December 31,					
	2017		2016		2015	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at Beginning of year	416,432	4.24	487,432	5.12	137,855	2.64
Granted	-	-	67,833	2.82	500,530	5.80
Exercised	(20,000)	0.64	(8,383)	1.53	(65,441)	3.10
Canceled and forfeited	(64,772)	6.42	(130,500)	6.96	(85,542)	6.64
Outstanding at end of year	331,660	4.03	416,432	4.24	487,432	5.12
Exercisable at end of year	236,277	3.67	186,253	4.14	95,709	4.81

We recognized compensation expenses related to our share-based employee compensation awards of \$631,000, \$924,000, and \$1,529,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

The following table summarizes the allocation of the stock-based compensation expenses (all amounts in thousands of dollars):

	Year ended December 31,		
	2017	2016	2015
	\$	\$	\$
Cost of revenues	217	266	264
Research and development expenses	155	207	311
Selling and marketing expenses	183	292	249
General and administrative expenses	76	159	705
	631	924	1,529

The options outstanding and exercisable as of December 31, 2017, have the following ranges of exercise prices as follows:

Range of exercise price	Options outstanding				Options Exercisable			
	Number outstanding as of December 31, 2017	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value	Number outstanding as of December 31, 2017	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value
\$			\$	\$			\$	\$
0.00-0.85	77,512	4.28	0.69	249,217	77,512	4.28	0.69	249,217
3.00-5.00	198,148	1.32	4.00	71,941	124,265	1.15	4.12	37,164
7.00-10.00	56,000	1.98	8.75	-	34,500	1.90	8.75	-
18.75-22.00	-	-	-	-	-	-	-	-
	<u>331,660</u>	<u>2.12</u>	<u>4.03</u>	<u>321,158</u>	<u>236,277</u>	<u>2.29</u>	<u>3.67</u>	<u>286,381</u>

The total intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 was \$65,000, \$16,000, and \$138,000, respectively, based on our company's average stock price of \$3.27, \$3.77, and \$9.39 during the years ended on those dates respectively.

A summary of the status of options granted to employees that had vested as of December 31, 2017 is presented below:

	Options	Weighted-average grant-date fair value
Non-vested at January 1, 2017	230,179	\$ 6.17
Granted	-	\$ -
Vested	(98,796)	\$ 5.44
Forfeited and canceled	(36,000)	\$ 6.38
Non-vested at December 31, 2017	95,383	\$ 6.84

As of December 31, 2017 and December 31, 2016, there was \$277,000 and \$1,073,000, respectively, of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the stock option plans.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table lists the beneficial ownership of our securities as of May 14, 2018 by each person known by us to be the beneficial owner of 5% or more of the outstanding shares of any class of our securities. As of May 14, 2018, 14,958,339 of our ordinary shares were outstanding.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Outstanding
Sigma Wave Ltd	4,021,672	26.89%
Ibex Investors LLC	1,607,024	10.74%
Heartland Advisors Inc.	1,193,152	7.98%

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. We believe that all persons named in the table have sole voting and sole investment power with respect to all shares beneficially owned by them. All figures include ordinary shares issuable upon the exercise of options and warrants exercisable within 60 days of May 14, 2018, and deemed to be outstanding and beneficially owned by the person holding those options or warrants for the purpose of computing the percentage ownership of that person, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

Sigma Wave Ltd. is controlled by family members of Mrs. Tsviya Trabelsi, our Chairman of the Board and by her husband, Mr. Arie Trabelsi. As such, Mrs. and Mr. Trabelsi may be deemed to beneficially own the 4,021,672 ordinary shares beneficially held by Sigma Wave Ltd. The address of Sigma Wave Ltd. is Tsufit 7, Caesarea, 38900, Israel.

Significant Changes in the Ownership of Major Shareholders

As of May 14, 2018, Ibex Investors beneficially owned 1,607,024 shares, or 10.74%, of our then outstanding ordinary shares
As of May 12, 2017, Ibex Investors beneficially owned 2,248,470 shares, or 15.08%, of our then outstanding ordinary shares
As of May 12, 2016, Ibex Investors beneficially owned 1,158,533 shares, or 7.72%, of our then outstanding ordinary shares.

As of May 14, 2017, Boston Partners beneficially owned 580,800 shares, or 3.88%, of our then outstanding ordinary shares.
As of May 12, 2017, Boston Partners beneficially owned 1,071,575 shares, or 7.17%, of our then outstanding ordinary shares
As of May 12, 2016, Boston Partners beneficially owned 1,358,533 shares, or 9.06%, of our then outstanding ordinary shares.

As of May 14, 2018, Heartland Advisors Inc. beneficially owned 1,193,152 shares, or 7.98%, of our then outstanding ordinary shares.
As of May 12, 2017, Heartland Advisors Inc. beneficially owned 1,492,900 shares, or 9.99%, of our then outstanding ordinary shares.
As of May 12, 2016, Heartland Advisors Inc. beneficially owned 956,138 shares, or 6.37%, of our then outstanding ordinary shares.

Voting Rights of Major Shareholders

Our major shareholders do not have different voting rights from the other holders of our ordinary shares.

Record Holders

Based on a review of the information provided to us by our U.S. transfer agent, as of May 14, 2018, there were approximately 26 record holders, of which 9 record holders holding approximately 77.2% of our ordinary shares had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 76.9% of our outstanding ordinary shares as of such date).

B. RELATED PARTY TRANSACTIONS

It is our policy to enter into transactions with related parties on terms that, on the whole, are no less favorable than those that would be available from unaffiliated parties. Based on our experience in the business segments in which we operate and the terms of our transactions with unaffiliated third parties, we believe that all of the transactions described below met our policy standards at the time they occurred.

Mr. Trabelsi served as our Chief Executive Officer from November 1, 2010 until November 12, 2011 and from June 1, 2012 to date. At the May 9, 2013 general meeting of shareholders, shareholders approved the payment of management fees of \$10,600 per month to Mr. Trabelsi plus social benefits and an annual bonus of up to the greater of 2% of annual net profit or 0.5% of annual revenue. The annual bonus may not exceed the total amount of Mr. Trabelsi's annual salary

As of December 31, 2017, we had accrued \$61,000 of expenses arising from consulting services provided by Mr. and Mrs. Trabelsi.

On April 29, 2012, our board of directors approved the recording of a floating charge on all of our assets in favor of Mrs. and Mr. Trabelsi, unlimited in amount, in order to secure personal guarantees granted by them in favor of our company to a bank and in order to secure short-term loans that are given by them from time to time to us. The short terms loans provided by Mrs. and Mr. Trabelsi during the years 2011 until 2017 ranged from NIS 10,000 up to NIS 6,924,000 and bore no interest. Currently, there are outstanding loans from Mrs. and Mr. Trabelsi in the amount of NIS 9,345,000 (approximately \$2,082,000). Mr. Trabelsi provided a guaranty to the bank in the amount of NIS 3 million as additional support to an unused credit line offered to us by one of our banks.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See the consolidated financial statements, including the notes thereto, included in Item 18.

Legal Proceedings

We are party to legal proceedings in the normal course of our business. Other than as described below, there are no material pending legal proceedings to which we are a party or of which our property is subject. Although the outcome of claims and lawsuits against us cannot be accurately predicted, we do not believe that any of the claims and lawsuits described in this paragraph, individually or in the aggregate, will have a material adverse effect on our business, financial condition, results of operations or cash flows for any quarterly or annual period.

As part of the acquisition of the SmartID division of OTI, we assumed a dispute with Merwell Inc. (“Merwell”). Merwell has alleged that it has not received the full payment it is entitled to for its services in respect of a drivers’ license project. OTI alleged that Merwell breached its commitments under the service agreement and also acted in concert with third parties to damage OTI’s business activities. This matter is now subject to an arbitration proceeding. An appropriate provision is included in our financial statement (See Item 18).

In August 2016, three claims previously filed against the Company and a number of defendants affiliated with the Company were consolidated into a class action lawsuit. The claims assert causes of action based on alleged false and misleading projections made by the Company in 2015. The complaint seeks unspecified compensatory damages. We believe that the claim has no merits and that the probability of the legal proceeding resulting in an unfavorable outcome to the Company is remote.

Dividend Distribution Policy

We have never paid cash dividends to our shareholders. We intend to retain future earnings for use in our business and do not anticipate paying cash dividends on our ordinary shares in the foreseeable future. Any future dividend policy will be determined by our Board of Directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions as the Board of Directors may deem relevant.

According to the Companies Law, a company may distribute dividends out of its profits (as such term is defined in the Companies Law), provided that there is no reasonable concern that payment of the dividend will prevent the company from satisfying all its current and foreseeable obligations, as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, at the company’s request, provided that there is no reasonable concern that payment of the dividend will prevent the company from satisfying its current and foreseeable obligations, as they become due. In the event cash dividends are declared, such dividends will be paid in NIS.

B. SIGNIFICANT CHANGES

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2018.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

All of the share price information provided below has been adjusted to give effect to a 1 share for 4.250002 shares reverse stock split effected on August 23, 2013.

Annual Stock Information

The following table sets forth, for the periods indicated, the high and low closing prices of our ordinary shares on The NASDAQ Capital Market or the OTCQB Market, as applicable.

Year	High		Low	
2012	\$	0.85	\$	0.04
2013	\$	5.65	\$	0.30
2014	\$	13.78	\$	4.85
2015	\$	13.84	\$	4.46
2016	\$	5.25	\$	2.62
2017	\$	4.36	\$	2.17

Quarterly Stock Information

The table below sets forth for the periods indicated the high and low closing prices of our ordinary shares as reported on NASDAQ and the OTCQB market.

	High	Low
2016		
First Quarter	\$ 5.25	\$ 3.70
Second Quarter	\$ 4.43	\$ 3.07
Third Quarter	\$ 3.77	\$ 3.18
Fourth Quarter	\$ 3.60	\$ 2.62
2017		
First Quarter	\$ 3.88	\$ 2.50
Second Quarter	\$ 3.19	\$ 2.17
Third Quarter	\$ 3.56	\$ 2.66
Fourth Quarter	\$ 4.36	\$ 2.72
2018		
First Quarter	\$ 3.92	\$ 2.73

Monthly Stock Information

The table below sets forth for the periods indicated the high and low closing prices of our ordinary shares as reported on NASDAQ market.

Month	High	Low
November 2017	\$ 4.36	\$ 3.73
December 2017	\$ 4.10	\$ 3.64
January 2018	\$ 3.92	\$ 3.23
February 2018	\$ 3.49	\$ 2.82
March 2018	\$ 3.01	\$ 2.73
April 2018	\$ 2.82	\$ 2.16
Through May 15, 2018	\$ 2.47	\$ 1.92

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

We became a publicly-traded company on the NASDAQ Europe stock market (formerly EASDAQ) on April 19, 1999. On October 23, 2003, following the closing of the NASDAQ Europe stock market, we transferred the listing of our ordinary shares to the Euronext Brussels stock market. We applied for delisting of our shares from the Euronext Brussels stock market, and our application was approved on May 6, 2008, effective August 4, 2008.

On July 29, 2004, we filed a Registration Statement on Form 20-F under the Exchange Act. When the Registration Statement became effective on September 29, 2004, we became a foreign private issuer reporting company under the Exchange Act. On November 5, 2004, our ordinary shares began trading in the U.S. on the OTC Bulletin Board under the symbol "SPCBF.OB," which following our name change to Vuance Ltd. on May 14, 2007, became "VUNCF.OB." On August 23, 2007, our ordinary shares were approved for trading on The NASDAQ Capital Market under the symbol "VUNC."

On September 29, 2009 we received a NASDAQ Staff Determination letter indicating that we failed to comply with the minimum stockholders' equity requirement of \$2.5 million as set forth in Listing Rule 5550(b). As a result, our securities were delisted from The NASDAQ Capital Market and trading in our shares was suspended effective at the open of business on October 1, 2009. Following the delisting and as of the open of business on October 1, 2009, our ordinary shares traded on OTCQB® electronic quotation service for securities traded over-the-counter until the close of business on September 16, 2013. Our ordinary shares began trading on the NASDAQ Capital Market effective at the opening of trading on Tuesday, September 17, 2013 under the ticker symbol "SPCB".

Not applicable.

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 Memorandum of Association and Articles of Association are attached hereto as noted in Item 19.

We are a public company organized in the State of Israel under the Israeli Companies Law. We are registered with the Registrar of Companies of the State of Israel as a publicly traded corporation and we have been assigned public company number 52-00-4407-4. Set forth below is a summary of certain provisions of our Memorandum of Association (the “Memorandum”), the Articles of Association (the “Articles”) and the Israeli Companies Law as it applies to the Company. This description does not purport to be complete and is qualified in its entirety by reference to the full text of the Memorandum and Articles and by Israeli law. The Memorandum and the Articles are filed as exhibits to this Annual Report.

OBJECTS OF THE COMPANY

Pursuant to Section 2 of the Memorandum, the principal object for which we were established is to engage in the development, manufacture, implementation and marketing of computerized systems in general and computerized systems for producing tags, computerized photograph databases for the purpose of identification and for issuing various certificates in particular; consultation in the above fields; development, manufacture, implementation and marketing of any product based on the knowledge and expertise of the parties; and the purchase, sale, import, export and implementation of any action required to realize the above objectives.

We are authorized to issue 18,000,000 ordinary shares par value NIS 0.25 per share, of which 14,958,339 ordinary shares were outstanding as of May 14, 2018.

DIRECTORS

Our Articles provide that the number of directors may be determined from time to time by the Board of Directors, and unless otherwise determined, the number of directors comprising the Board of Directors will be between four and ten. With the exception of our external directors, who are elected for three year terms in accordance with the Israeli Companies Law, our directors are elected for a one year term ending at the following annual general meeting of shareholders. However, if no directors are elected at an annual meeting, then the persons who served as directors immediately prior to the annual meeting shall be deemed reelected at the same meeting. The general meeting may resolve that a director be elected for a period not longer than the third next annual meeting. Directors may resign or in certain circumstances be removed by our general meeting prior to the expiration of his term.

The board may appoint additional directors (whether to fill a vacancy or create a new directorship) to serve until the next annual shareholders meeting. In case an office of a director has been vacated, the remaining directors may continue to act in every matter so long as the number of its members is not less than the quorum required at the time for meetings of the board. If the number of members of the board decreases below said quorum, the board will not be entitled to act except in case of emergency or for appointing additional directors in order to fill vacant positions on the board or to call a general meeting of the shareholders. The Board of Directors elects one of its members to serve as the Chairman.

The Board of Directors may meet and adjourn its meetings as it deems fit, provided, however, that the board must meet at least once in every three months period. A meeting of the board may be called at the request of each director. The quorum required for a meeting of the board is not less than 30% of the number of directors and in any event not less than two directors. Issues arising at any Board of Directors’ meeting are decided by a majority of votes cast at the meeting. In lieu of a board meeting a resolution may be adopted in writing if signed by all directors or to which all of the directors have agreed in writing or by telephone or facsimile, and a meeting may also be held through telephone conference or other communications means, provided however that all participants may hear each other simultaneously. A resolution in writing signed by all of the directors, shall be as valid and effective for all purposes as if passed at a meeting of the Board of Directors duly convened and held, and for the purpose of the foregoing “director” shall include, if duly appointed therefore, a substitute director.

FIDUCIARY DUTIES OF OFFICERS

The Israeli Companies Law codifies the fiduciary duties that “office holders,” including directors and executive officers, owe to a company. An office holder’s fiduciary duties consist of a duty of care and a duty of loyalty. The duty of loyalty includes avoiding any conflict of interest between the office holder’s position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company’s affairs which the office holder has received due to his position as an office holder.

APPROVAL OF CERTAIN TRANSACTIONS

Transactions with Office Holders; Extraordinary Transactions

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors or controlling parties require approval of the audit committee or a compensation committee to the extent that it complies with the statutory requirements which apply to the audit committee, and the Board of Directors. Arrangements regarding the terms of employment and compensation of directors require approval by the audit committee, the Board of Directors and the shareholders.

The Israeli Companies Law requires that an office holder of the 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, siblings and parents of the office holder's spouse, and the spouses of any of the foregoing. In addition, the office holder must also disclose any interest held by any corporation in which the office holder is a 5% or greater shareholder, 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 other than in the ordinary course of business, otherwise than 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 which 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. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the articles of association, it also must be approved by the company's audit committee and then by the Board of Directors, and, under certain circumstances, by a meeting of the shareholders of the company.

An individual who has a personal interest in a matter that is considered at a meeting of the Board of Directors or the audit committee may not be present at the deliberations or vote on this matter. However, with respect to an office holder, he/she may be present at the meeting discussions if the chairman determines that the office holder has to present the matter. If a majority of the directors has a personal interest in a transaction with us, such directors may be present at the deliberations and vote in this matter, and shareholder approval of the transaction is required.

Under the Israeli Companies Law and as long as our Articles are not amended to determine otherwise, certain resolutions, such as resolutions regarding liquidation, require approval of the holders of 75% of the shares represented at the meeting and voting thereon.

Approval of a Compensation Policy for Office Holders

In accordance with the Companies Law, a public company, such as our company, is required to adopt a compensation policy setting forth the principles to govern the terms of office and employment (including cash and equity-based compensation, exemption from liability, indemnification, D&O insurance and other benefits and payments related to the service and employment) of the Office Holders of the company. These amendments to the Companies Law also define the criteria to be considered or included in such compensation policy. The compensation policy needs to be approved no later than September 2013 by the board of directors, after consideration of the recommendations of the compensation committee and by the majority of the company's shareholders provided that either: (i) such majority includes a majority of the total votes of shareholders who are not controlling shareholders and do not have a Personal Interest in the approval of the compensation policy and who participate in the voting, in person, by proxy or by written ballot, at the meeting (abstentions not taken into account); or (ii) the total number of votes of shareholders mentioned in (i) above that are voted against the approval of the compensation policy do not represent more than 2% of the total voting rights in the company.

Under certain circumstances and subject to certain exceptions, the board of directors may approve the compensation policy even if not approved by the shareholders as described above, provided that the compensation committee and the board of directors determine, following an additional discussion and based on detailed reasons, that it is for the benefit of the company to adopt such compensation policy. We intend to comply with these new requirements of the Israeli Companies Law within the required time frame.

Commencing as of December 2012, any changes to compensation terms of Officers are to be approved in accordance with the principles set forth in such amendments to the Israeli Companies Law as if a compensation policy was already in force. In accordance with the Companies Law, as amended, the compensation policy must be re-approved every three years, in the manner described above. The board of directors is responsible for reviewing from time to time the compensation policy and determining whether or not there are any circumstances that require adjustments to the current compensation policy. (See also Item 6. Directors, Senior Management and Employees - Board Practices - Compensation Committee.)

Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders

The Israeli Companies Law applies the same disclosure requirements to a controlling shareholder of a public company, which includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the terms of compensation of a controlling shareholder who is an office holder (including the provision of services to the company), require the approval of the audit committee or the compensation committee, as applicable, the Board of Directors and the shareholders of the company by simple majority, provided that either such majority vote must include at least one-half of the shareholders who have no personal interest in the transaction and are present at the meeting (without taking into account the votes of the abstaining shareholders), or that the total shareholdings of those who have no personal interest in the transaction who vote against the transaction represent no more than two percent of the voting rights in the company.

Agreements and extraordinary transactions with a term exceeding three years are subject to re-approval once every three years by the audit committee, board of directors and the shareholders of the company. Certain types of extraordinary transactions may be approved in advance for a period exceeding three years if the audit committee determines such approval reasonable under the circumstances.

Under the Companies Regulations (Relief from Related Party Transactions), 5760-2000, promulgated under the Israeli Companies Law, as amended, certain extraordinary transactions between a public company and its controlling shareholder(s) do not require shareholder approval. In addition, under such regulations, directors' compensation and employment arrangements in a public company do not require the approval of the shareholders if both the audit committee and the board of directors agree that such arrangements are solely for the benefit of the company. Also, employment and compensation arrangements for an office holder that is a controlling shareholder of a public company do not require shareholder approval if certain criteria are met. The foregoing exemptions from shareholder approval will not apply if one or more shareholders holding at least 1% of the issued and outstanding share capital of the company or of the company's voting rights, objects to the use of these exemptions provided that such objection is submitted to the company in writing not later than fourteen days from the date of the filing of a report regarding the adoption of such resolution by the company. If such objection is duly and timely submitted, then the transaction or compensation arrangement of the directors will require shareholders' approval as detailed above.

The Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would control 25% or greater of the company's voting rights. This rule does not apply if there is already another such shareholder which controls 25% or greater of the company's voting rights. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would hold greater than a 45% voting rights in the company, unless there is another shareholder holding more than a 45% voting rights in the company. These requirements do not apply to: (i) the acquisition of shares in a private placement, provided that such private placement was approved by the general meeting of the company's shareholders as a private placement purporting to confer to the offeree the control of 25% or greater of the company's voting rights if there is no other holder of such a block of shares, or purporting to confer to the offeree 45% of the voting rights in the company if there is no other person holding forty-five percent of the voting rights in the company; (ii) was from a shareholder which controls 25% or greater of the company's voting rights which resulted in the acquirer becoming a shareholder of the company; or (iii) was from a shareholder holding a 45% of the voting rights in the company which resulted in the acquirer becoming a holder of a 45% of the voting rights in the company. A special tender offer will only be considered accepted if: (i) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer (excluding the shares of controlling shareholders of the offeror and excluding the holders of a 25% or more block of the voting rights in the company); and (ii) at least 5% of the voting rights in the company are purchased in the tender offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a public company's outstanding shares or a class of shares, the acquisition must be made by means of a tender offer for all of the outstanding shares or a class of shares. If less than 5% of the outstanding shares are not tendered in the tender offer, and more than half of the shareholders without a personal interest in accepting the offer tendered their shares, then all the shares that the acquirer offered to purchase will be transferred to the acquirer. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer, but the acquirer will be entitled to stipulate that tendering shareholders forfeit their appraisal rights. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares; provided, however, that if the dissenting shareholders constitute less than 2% of the issued and outstanding share capital of the company then the full tender will be accepted and all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law.

DUTIES OF SHAREHOLDERS

Under the Israeli Companies Law, a shareholder has a duty to act in good faith and in a customary way towards the company and other shareholders and to refrain from abusing his or her power in the company including, among other things, when voting in a 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 which require shareholder approval.

Furthermore, the Israeli Companies Law requires that a shareholder refrain from acting in a discriminatory manner towards other shareholders.

The Israeli Companies Law does not describe the substance of the aforementioned duties of shareholders, but provides that laws applicable to a breach of contract, adjusted according to the circumstances shall apply to a breach of such duties. With respect to the obligation to refrain from acting discriminatorily, a shareholder that is discriminated against can petition the court to instruct the company to remove or prevent the discrimination, as well as provide instructions with respect to future actions.

In addition, the Israeli Companies Law dictates that any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company's articles of association, has the power to appoint or prevent the appointment of an office holder in the company, is under a duty to act with fairness towards the company.

The Israeli Companies Law does not describe the substance of the aforementioned duty to act with fairness but provides that laws applicable to a breach of contract, adjusted according to the circumstances and taking into account the status within the company of such shareholder, shall apply to a breach of such duty.

EXEMPTION, INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

Exemption of Office Holders

Under the Israeli Companies Law, an Israeli company may not exempt an office holder from liability for breach of his duty of loyalty, but may exempt in advance an office holder from liability to the company, in whole or in part, for a breach of his duty of care, provided the articles of association of the company allow it to do so. Our Articles allow us to exempt our office holders from liability towards us for breach of duty of care to the maximum extent permitted by law.

Office Holder Insurance

Our Articles provide that, subject to the provisions of the Israeli Companies Law, we may enter into a contract for the insurance of the liability of any of our office holders for any act done by him or her by virtue of being an office holder, in respect of any of the following:

- a breach of duty of care towards us or any other person,
- a breach of fiduciary obligations towards us, provided that the office holder acted in good faith and had reasonable grounds to assume that his or her act would not be to our detriment,
- a financial liability imposed on him or her in favor of another person, or
- any other event for which insurance of an office holder is or may be permitted.

Indemnification of Office Holders

Our Articles provide that we may indemnify an office holder for the following cases of liability and expenses incurred by him or her as a result of an act done by him or her by virtue of being an office holder:

- financial liability imposed upon said office holder in favor of another person by virtue of a decision by a court of law, including a decision by way of settlement or a decision in arbitration which has been confirmed by a court of law;
- reasonable expenses of the proceedings, including lawyers' fees, expended by the office holder or imposed on him by the court for:
 - (1) proceedings issued against him by or on behalf of the Company or by a third party;
 - (2) criminal proceedings in which the office holder was acquitted; or
 - (3) criminal proceedings in which he was convicted in an offense, which did not require proof of criminal intent; or
- any other liability or expense for which the indemnification of an officer holder is not precluded by law.

We have obtained directors and officers liability insurance for the benefit of our office holders. In addition, we have sometimes granted indemnification letters to our office holders.

Limitations on Exemption, Insurance and Indemnification

The Israeli Companies Law provides that a company may not exempt or indemnify an office holder, or enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his or her duty of loyalty towards the company unless, with respect to insurance coverage, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his or her duty of care if the breach was done intentionally or recklessly;
- any act or omission done with the intent to derive an illegal personal benefit; or
- any fine levied against the office holder.

Required Approvals

In addition, under the Israeli Companies Law, any exemption of, indemnification of, or procurement of insurance coverage for, our office holders must be approved by our audit committee and our Board of Directors and, if the beneficiary is a director, an additional approval by our shareholders is required.

RIGHTS OF ORDINARY SHARES

Our ordinary shares confer upon our shareholders the right to receive notices of, and to attend, shareholder meetings, the right to one vote per ordinary share at all shareholders' meetings for all purposes, and to share equally, on a per share basis, in such dividends as may be declared by our Board of Directors; and upon liquidation or dissolution, the right to participate in the distribution of any surplus assets of the Company legally available for distribution to shareholders after payment of all debts and other liabilities of the Company. All ordinary shares rank *pari passu* in all respects with each other.

MEETINGS OF SHAREHOLDERS

An annual general meeting of our shareholders will be held at least once in every calendar year, not later than 15 months after the last annual general meeting at such time and at such place either within or without the State of Israel as may be determined by our Board of Directors.

Our Board of Directors may, whenever it deems fit, convene a special general meeting. Special general meetings may also be convened upon requisition in accordance with the Israeli Companies Law. Our Board is obligated to convene a special general meeting if it receives a written request from any of (a) two Directors or 25% of the total number of Directors; (b) one or more Shareholders, holding at least 5% of our outstanding share capital and at least 1% of the shareholders' voting power; or (c) one or more shareholders holding no less than 5% of the our outstanding voting shares.

MERGERS

A merger of the Company shall require resolution adopted by a simple majority vote cast at a general meeting, not taking into account abstentions provided, however, that if the transaction is an extraordinary transaction with a controlling shareholder or in which a controlling shareholder has an interest, then the approvals required will be the corporate approvals under the Israeli Companies Law for such extraordinary transaction.

C. MATERIAL CONTRACTS

While we have numerous contracts with customers, representatives, distributors and landlords, except as described in Item 4. Information on the Company – Business Overview – Key Customer Contracts and except for the Asset Purchase Agreement with OTI from August 2013, as outlined in “Item 5. Operating and Financial Review and Prospects,” we do not deem any such individual contract to be material contracts which are not in the ordinary course of our business

D. EXCHANGE CONTROLS

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares.

Non-residents of Israel who purchase our ordinary shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, into freely repatriable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption has been obtained.

E. TAXATION

Taxation and Government Programs

The following description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of our ordinary shares. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign or other taxing jurisdiction.

Israeli Tax Considerations and Government Programs

The following is a summary of the current material Israeli tax laws applicable to companies in Israel with special reference to its effect on us. This summary does not discuss all the acts of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Some parts of this discussion are based on new tax legislation that has not been subject to judicial or administrative interpretation. Accordingly, we cannot assure you that the views expressed in the discussion will be accepted by the tax authorities in question. The discussion is not intended and should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

POTENTIAL INVESTORS AND HOLDERS OF OUR SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE ISRAELI OR OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES, INCLUDING, IN PARTICULAR, THE EFFECT OF ANY FOREIGN, STATE OR LOCAL TAXES.

The following discussion describes the material Israeli tax consequences regarding ownership and disposition of our ordinary shares applicable to non-Israeli shareholders, including U.S. shareholders.

General Corporate Tax Structure

Israeli companies are generally subject corporate tax on their taxable income at the rate of 23.0% in 2018 (24.0% in 2017, 25% in 2016; 26.5% in 2015).

On August 5, 2013 the Israeli parliament (the Knesset) passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) - 2013, by which, inter alia, the corporate tax rate would be raised by 1.5% to a rate of 26.5% as from 2014. On January 4, 2016, the Knesset plenum approved a bill to amend the Income Tax Ordinance, including a reduction in corporate tax by 1.5% from 26.5% to 25%, as from January 1, 2016. In 2017 the Knesset approved additional reduction of 1% every year to 24% in 2017, 23% in 2018 onwards.

Taxation of Capital Gains Applicable to Israeli Shareholders and Non-Israeli Shareholders

General

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

The portion of the inflationary surplus accrued from the date of acquisition until January 1, 1994 is taxed at a rate of 10%, and thereafter until the date of sale is exempt from tax.

Israeli residents

Individuals

Pursuant to amendments to the Tax Ordinance, effective as of January 1, 2012, the capital gains tax rate applicable to individuals upon the sale of securities is such individual's marginal tax rate but not more than 25%, or 30% with respect to an individual who meets the definition of a 'Substantial Shareholder' on the date of the sale of the securities or at any time during the 12 months preceding such date. A 'Substantial Shareholder' is defined as a person who, either alone or together with any other person, holds, directly or indirectly, at least 10% of any of the means of control of a company (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director). An additional tax at a rate of 3% on the capital gain tax rate may be imposed upon shareholders whose annual taxable income exceeds NIS 641,880 (in 2017) (hereinafter "Surcharge Tax").

Companies

The real capital gain on the sale of securities by a company will be taxed at the corporate tax rate applicable during the year of sale (24% in 2017, 23% in 2018 onwards).

Non-Israeli residents

In general, if ordinary shares are traded on a Recognized Exchange gains on the sale of ordinary shares held by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax so long as the shares were not held through a permanent establishment that the non-Israeli tax resident investor maintains in Israel. Notwithstanding the foregoing, dealers in securities in Israel are taxed at regular tax rates applicable to business income.

However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, persons paying consideration for shares, including purchasers of shares, Israeli securities dealers effecting a transaction, or a financial institution through which securities being sold are held, are required, subject to any applicable exemptions and the demonstration by the selling shareholder of its non-Israeli residency and other requirements, to withhold tax upon the sale of publicly traded securities at a rate of 25% for individuals and at the corporate tax rate (24% in 2017) for corporations.

The Convention between the Government of the State of Israel and the Government of the United States of America with Respect to Taxes on Income (the "Treaty") is generally effective as of January 1, 1995. Under the Treaty, the maximum Israeli withholding tax on dividends paid to a holder of our ordinary shares who is a Treaty U.S. Resident (as defined below) is generally 25% or 30% for a shareholder that is considered a significant shareholder at any time during the 12-month period preceding such distribution.

The Treaty further provides that a 15% or a 12.5% Israeli dividend withholding tax will apply to dividends paid to a U.S. corporation owning 10% or more of an Israeli company's voting shares during, in general, the current and preceding tax year of the Israeli company. However, these provisions do not apply if the company has certain amounts of passive income.

Pursuant to the Treaty, the sale, exchange or disposition of our ordinary shares by a person who qualifies as a resident of the United States within the meaning of the Treaty and who is entitled to claim the benefits afforded to such residents under the Treaty (a "Treaty U.S. Resident") generally will not be subject to the Israeli capital gains tax unless such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of the voting power of the Company during any part of the 12-month period preceding such sale, exchange or disposition subject to certain conditions. A sale, exchange or disposition of our ordinary shares by a Treaty U.S. Resident who holds, directly or indirectly, shares representing 10% or more of the voting power of the Company at any time during such preceding 12-month period would not be exempt under the Treaty from such Israeli tax; however, under the Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against U.S. federal income tax imposed on any gain from such sale, exchange or disposition, under the circumstances and subject to the limitations specified in the Treaty and U.S. domestic law. As mentioned above, gains on the sale of ordinary shares held by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax if the ordinary shares are traded on a Recognized Exchange. This exemption would generally apply notwithstanding the Treaty.

In some instances, where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source. However, under the Tax Treaty, such U.S. resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The Tax Treaty does not relate to U.S. state or local taxes.

Tax on Dividends

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income such as dividends. On distributions of dividends other than bonus shares, or stock dividends, income tax is applicable at the rate of 25%, or 30% for a shareholder that is considered a significant shareholder at any time during the 12-month period preceding such distribution. A different rate may be provided in a treaty between Israel and the shareholder's country of residence. Under the Tax Treaty, the maximum tax on dividends paid to a holder of our ordinary shares who is a US resident is 25%; however if not more than 25% of our gross income consists of interest or dividends, then the maximum tax is 12.5% for a shareholder who is a US corporation holding at least 10% of our issued voting power during the part of the taxable year preceding the date of payment of the dividend and during the whole of the prior taxable year (and additional conditions under the Tax Treaty are met).

U.S. Federal Income Taxation

The following is a description of certain U.S. federal income tax consequences relating to the acquisition, ownership and disposition of our ordinary shares by a U.S. Holder as defined below. This description addresses only the U.S. federal income tax consequences to U.S. Holders that hold our ordinary shares as capital assets. This description is based on the Internal Revenue Code of 1986, as amended (the "Code"), existing, proposed and temporary Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. There can be no assurances that the U.S. Internal Revenue Service, ("IRS"), will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our shares or that such a position would not be sustained. U.S. Holders should consult their own tax advisors concerning the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of our ordinary shares in their particular circumstances.

This description does not address all the tax consequences that may be relevant to a U.S. Holder subject to special tax rules, including without limitation:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities, commodities or currencies
- tax-exempt entities or organizations, including an "individual retirement account" or "Roth IRA" as defined in Section 408 or 408A of the Code
- certain former citizens or long-term residents of the United States
- persons that received our shares as compensation for the performance of services
- persons that will hold our shares as part of a "hedging," "integrated" or "conversion" transaction or as a position in a "straddle" for U.S. federal income tax purposes
- partnerships or other pass-through, or holders that will hold our shares through such an entity
- S corporations;
- holders whose functional currency is not the U.S. Dollar; or
- holders that actually or constructively own 10 percent or more of our voting shares.

Moreover, this description does not address the United States federal estate, gift or alternative minimum tax consequences, or any state, local or foreign tax consequences, of the acquisition, ownership and disposition of our ordinary shares.

For purposes of this summary, the term "U.S. Holder" means any beneficial owner of our ordinary shares who is:

- an individual and either a citizen or, for U.S. federal income tax purposes, a resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust that (a) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) holds our ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. Such partner or partnership should consult their tax advisor about the U.S. federal income tax consequences of holding and disposing of ordinary shares in its particular circumstance.

Taxation of Dividends

Subject to the discussion below under the heading "Passive Foreign Investment Companies," the gross amount of any distribution made to you with respect to our ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividend income for U.S. federal income tax purposes, to the extent such dividend is paid out of our current and accumulated earnings and profits as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the ordinary shares, and any amount in excess of your tax basis will generally be treated as capital gain from the sale of ordinary shares. See "Disposition of Ordinary Shares" below for a discussion of the taxation of capital gains. Because we are not a U.S. corporation, U.S. Holders that are corporations will not be entitled to claim a dividends-received deduction under Section 243 of the Code with respect to distributions they receive from us.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations, any Israeli withholding tax imposed on such dividends will be a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability. The limitations set out in the Code include computational rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. Dividends generally will be treated as foreign source passive category income for United States foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a U.S. Holder who receives dividends subject to a reduced tax rate.

In lieu of claiming a foreign tax credit, U.S. Holders may, at their election, deduct foreign taxes, including Israeli taxes, in computing their taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all foreign taxes paid or accrued in the taxable year.

The rules relating to the determination of the foreign tax credit are complex, and you should consult with your personal tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations, including the Medicare tax, discussed below, "qualified dividend income" received by a non-corporate U.S. Holder will be subject to tax at a preferential maximum tax rate of 20 percent. Distributions taxable as dividends paid on the ordinary shares should qualify for the preferential 20 percent rate provided that either: (i) we are entitled to benefits under the income tax treaty between the United States and Israel (the "Treaty") or (ii) the ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that the ordinary shares currently are readily tradable on an established securities market in the United States, and therefore any dividend distributions with respect to our ordinary shares should be "qualified dividends" eligible for the preferential tax rate. However, no assurance can be given that the ordinary shares will remain readily tradable. The preferential rate does not apply unless certain holding period requirements are satisfied. With respect to the ordinary shares, the U.S. Holder must have held such shares for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date. The preferential rate also does not apply to dividends received from a passive foreign investment company or in respect of certain hedged positions or in certain other situations. The legislation enacting the preferential tax rate on qualified dividends contains special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to the preferential tax rate. U.S. Holders of ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Additional Tax on Investment Income

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds, will be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains.

Disposition of Ordinary Shares

If you sell or otherwise dispose of ordinary shares, you will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in the ordinary shares. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. Long-term capital gain realized by a non-corporate U.S. Holder is generally eligible for a preferential tax rate (currently at 20%). In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A U.S. Holder who receives payment in NIS and converts NIS into United States dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of ordinary shares, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder may have a foreign currency gain or loss for U.S. federal income tax purposes because of differences between the U.S. dollar value of the currency received on the trade date and on the settlement date. Any such currency gain or loss would be treated as ordinary income or loss and would be in addition to the gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

Passive Foreign Investment Companies

In general, a non U.S. corporation will be considered a passive foreign investment company (“PFIC”), if (i) 75% or more of its gross income consists of passive income, or (ii) 50% or more of the average value of its assets consists of assets that produce, or are held for the production of passive income. For purposes of the above calculation, a non U.S. corporation that directly or indirectly owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes dividends, interest, certain royalties, rents, annuities and the excess of gains over losses from the disposition of assets which produce passive income.

Based on our current and projected income, assets and activities, we believe that we are not currently a PFIC, nor do we expect to become a PFIC in the foreseeable future. However, because the determination of whether we are a PFIC is based upon the composition of our income and assets from time to time, there can be no assurances that we will not become a PFIC in this or any future taxable year.

If we were to be treated as a PFIC for any taxable year during which a U.S. Holder held ordinary shares, such U.S. Holder would be required to file IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund). In addition, the favorable tax rates described above with respect to dividends paid to certain non-corporate U.S. Holders would not apply if we were a PFIC for the taxable year of distribution or the preceding taxable year.

If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. Holders owning, directly or indirectly, ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

Backup Withholding and Information Reporting

Payments in respect of ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and to U.S. backup withholding tax at a rate of 28%. Backup withholding will not apply, however, if you (i) are a corporation or other exempt recipient, or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules are properly credited against a U.S. Holder’s U.S. tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate tax return or other claim for refund with the IRS.

U.S. individuals that hold certain specified foreign financial assets, including stock in a foreign corporation, with values in excess of certain thresholds are required to file Form 8938 (Statement of Specified Foreign Financial Assets) with their US Federal income tax return. U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ordinary shares.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to certain of the reporting requirements of the Exchange Act, as applicable to “foreign private issuers” as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the SEC an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the SEC reports on Form 6-K containing (among other things) press releases and unaudited financial information. We post our annual report on Form 20-F on our website www.supercom.com promptly following the filing of our annual report with the SEC. The information on our website is not incorporated by reference into this annual report.

This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the SEC public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC’s public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330. The Exchange Act file number for our SEC filings is 001-33668.

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

The documents concerning our company that are referred to in this Annual Report may also be inspected at our offices located at 1 Arie Shenker Street, Hertzliya Pituach, Israel.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Exposure to Market Risks

We may be exposed to a variety of risks, including changes in interest rates affecting primarily interest received on short-term deposits and foreign currency fluctuations. In 2017 our principal market risk was our exposure to currency exchange fluctuations. We may limit our exposure to currency exchange rate risk by using various hedging techniques (which was not used in 2017), including forward and option contracts. However, we cannot eliminate the effects of currency fluctuations altogether. Exchange rate fluctuations resulting in a devaluation of the U.S. dollar compared to the NIS could have a material adverse impact on our operating results and share price.

Foreign Currency Exchange Risk

We may in the future carry out transactions involving foreign currency exchange derivative financial instruments. The transactions would be designed to hedge our exposure in NIS against the U.S. dollar.

We have operations in several countries in connection with the sale of our products. A substantial portion of our sales and expenditures are denominated in dollars. We have mitigated, and expect to continue to mitigate, a portion of our foreign currency exposure through salaries, marketing and support operations in which all costs are local currency based. As a result, our results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates (primarily the NIS). A hypothetical 10% movement in foreign currency rates (primarily the NIS) against the dollar, with all other variables held constant on the expected sales, would result in a decrease or increase in expected 2017 net income of approximately \$2.0 million.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Our management, under the supervision and with the participation of our Chief Executive Officer (CEO) and acting Chief Financial Officer (acting CFO), has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2017, pursuant to Rule 13a-15 under the Exchange Act. Based upon this evaluation, our CEO and acting CFO concluded that our disclosure controls and procedures were ineffective as of December 31, 2017 as a result of the material weakness identified in our internal control over financial reporting. These material weaknesses are discussed in our “Report of Management on Internal Control over Financial Reporting” below. Our management considers our internal control over financial reporting to be an integral part of our disclosure controls and procedures.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making our assessment, our management used the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). A material weakness, as defined by SEC rules, is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified in the Company’s internal control over financial reporting is the following:

Inadequate segregation of duties consistent with our control objectives within the period-end financial reporting process.

Based on such assessment, management has concluded that, as of December 31, 2017, our internal control over financial reporting is ineffective.

Notwithstanding the identified material weakness, management believes that the consolidated financial statements included in this Annual Report fairly represent with all material respects the financial position, results of operations and cash flows as of and for all periods presented.

Management’s Remediation Plan

With the oversight of our CEO and acting CFO, we have begun to plan and take measures to remediate the underlining causes of this material weakness. Such remediation initiatives include:

We will complete the process and hire new CFO . We believe that this first step should assist in segregation of duties.

During 2018, we also plan to implement additional steps as follows:

- (i) Appoint additional qualified personnel to address inadequate segregation of duties within the period-end financial reporting process;
- (ii) Continue implementing modifications to our procedures and financial controls to address such inadequacies; and

Management believes that it will complete its remediation plan in 2018 and will have effective internal control over financial reporting as of December 31, 2018.

Changes in Internal Control over Financial Reporting

During the period covered by this annual report ended December 31, 2017, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Mr. Avi Ayash and Mrs. Shlomit Sarusi, both members of our audit committee, are audit committee financial experts, as defined under the Exchange Act rules, and are independent in accordance with applicable Exchange Act rules. The relevant experience of each of them is summarized in Item 6A “Directors and Senior Management.”

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our chief executive officer and all senior financial officers of our company, including the chief financial officer, chief accounting officer or controller, or persons performing similar functions. Our code of ethics has been filed as an exhibit to this annual report. Written copies are available upon request. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website: <http://www.supercom.com>

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Registered Public Accounting Firm Fees

The following table sets forth, for each of the years indicated, the fees billed by our principal independent registered public accounting firms, Kesselman & Kesselman a member firm of PricewaterhouseCoopers International Limited for 2017 and Brightman Almagor Zohar & Co., Certified Public Accountants, a member firm of Deloitte Touche Tohmatsu for 2016. All of such fees were pre-approved by our Audit Committee.

Services Rendered	Year Ended December 31,	
	2016	2017
Audit fees	\$ 185,000	\$ 180,000

Audit-related fees	\$ 45,000	\$ 10,000
Tax fees	\$ 5,000	\$ 5,000
Total	\$ 235,000	\$ 195,000

“Audit Fees” are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent registered public accounting firm provides, such as statutory audits including audits required by Israeli government institutes.

“Audit-related Fees” are the aggregate fees billed for services in respect of due diligence related to mergers and acquisitions, consents and assistance with and review of documents filed with the SEC.

“Tax Fees” are the aggregate fees billed for professional services rendered for tax compliance and tax advice, other than in connection with the audit. Tax compliance involves preparation of original and amended tax returns, tax planning and tax advice.

Pre-Approval Policies and Procedures

The audit committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by our independent auditors. These policies generally provide that we will not engage our independent auditors to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee or the engagement is entered into pursuant to the pre-approval procedure described below.

From time to time, the audit committee may pre-approve specified types of services that are expected to be provided to us by our independent auditors during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.

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

Not applicable.

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

Not applicable.

ITEM 16F. CHANGES IN REGISTRANT’S CERTIFYING ACCOUNTANT

On December 3, 2017, the General Assembly of SuperCom Ltd. (the “Company”) approved the replacement of Brightman Almagor Zohar & Co., member of Deloitte Touche Tohmatsu Limited (“Deloitte”), as the Company’s independent registered public accounting firm and the engagement of Kesselman & Kesselman, A member firm of PricewaterhouseCoopers International Limited as its new independent registered public accounting firm as of and for the year ended December 31, 2017. The change of auditors was mutually decided upon after Deloitte has declined to stand for re-election. As described below, the change in independent registered public accounting firm is not the result of disagreement with Deloitte regarding the financial statements issued.

Under Israeli law, the Company’s shareholders annually approve the Audit Committee’s recommendation of the independent registered accounting firm. The Company’s annual report on Form 20-F for the fiscal year ended December 31, 2016, including the financial statements audited by Deloitte, was filed with the Securities and Exchange Commission on May 26, 2017 and, thus, Deloitte had concluded its required services to the Company for fiscal 2016.

Deloitte’s audit reports on the financial statements for the years ended December 31, 2016 and 2015 did not provide an adverse opinion or disclaimer of opinion to the Company’s financial statements, nor modify its opinion as to uncertainty, audit scope or accounting principles.

During the fiscal years ended December 31, 2016 and 2017, there were: (i) no disagreements within the meaning of Item 16F(a)(1)(iv) of Regulation S-K and the related instructions between the Company and Deloitte on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Deloitte’s satisfaction, would have caused Deloitte to make reference thereto in their reports; and (ii) no “reportable events” within the meaning of Item 16F(a)(1)(v) of Regulation S-K except for the Going Concern Explanation described above.

During the fiscal years ended December 31, 2016 and 2017 neither the Company nor anyone on its behalf has consulted with Kesselman & Kesselman regarding: (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company’s financial statements, and neither a written report nor oral advice was provided to the Company that Kesselman & Kesselman concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing, or financial reporting issue; (ii) any matter that was the subject of a disagreement within the meaning of Item 16F(a)(2)(iv) of Regulation S-K and the related instructions; or (iii) any reportable event within the meaning of Item 16F(a)(2)(v) of Regulation S-K.

The Company has provided Deloitte with a copy of the disclosures in this Form 20-F and has requested that Deloitte furnish the Company with a letter addressed to the Securities and Exchange Commission (“SEC”), stating whether it agrees with the statements made herein and if not, stating in what respects it does not agree. A copy of Deloitte’s letter, dated May 15, 2018, is filed as Exhibit 16.XX to this Form 20-F.

ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Stock Market Rule 5615(a)(3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any of such NASDAQ rules must submit to NASDAQ, in advance, a written statement from an independent counsel in such issuer’s home country certifying that the issuer’s practices are not prohibited by the home country’s laws. We have provided NASDAQ with notices of non-compliance with respect to the following NASDAQ rules:

- The requirements regarding the directors’ nominations process. Instead, we follow Israeli law and practice in accordance with which our directors are recommended by our board of directors for election by our shareholders. See Item 6C. “Directors, Senior Management and Employees - Board Practices - Election of Directors.

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The requirement to obtain shareholder approval for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Under Israeli law and practice, the approval of the board of directors is required for the establishment or amendment of equity based compensation plans and private placements. Under Israeli regulations, Israeli companies whose shares have been publicly offered only outside of Israel or are listed for trade only on an exchange outside of Israel, such as our company, are exempt from the Israeli law requirement to obtain shareholder approval for private placements of a 20% or more interest in the company. For the approvals and procedures required under Israeli law and practice for an issuance that will result in a change of control of the company and acquisitions of the stock or assets of another company, see Item 6.C. “Directors, Senior Management and Employee - Board Practices - Approval of Related Party Transactions Under Israeli Law-Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders” and Item 10.B. “Additional Information — Memorandum and Articles of Association - Provisions Restricting Change in Control of Our Company.”

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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Reports of Independent Registered Public Accounting Firms	
Consolidated Balance Sheets	F-1
Consolidated Statements of Operations	F-2
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Consolidated Statements of Cash Flows	F-4
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ITEM 19. EXHIBITS

Index to Exhibits

Exhibit	Description
1.1	Memorandum of Association of the Company (1)
1.2	Articles of Association of the Company (2)
2.1	Form of Stock Certificate representing ordinary shares (3)
4.1	The SuperCom Ltd. 2003 Israeli Share Option Plan (4)
4.2	The SuperCom Ltd. 2007 U.S. Stock Option Plan (5)
4.3	Agreement to Defer Bond Repayments between SuperCom Ltd. and Sigma Wave Ltd., dated March 30, 2011 (6)
4.4	Asset Purchase Agreement by and among On Track Innovations Ltd. and SuperCom Ltd., dated as of August 14, 2013 (7)
4.5	Indemnification letter (Statement of Exemption and Indemnification) (8)
8.1	List of Subsidiaries
11.1	Code of Ethics (9)
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tomatsu
15.2	Consent of Kesselman & Kesselman, A member firm of PricewaterhouseCoopers International Limited
16.1	Letter from Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tomatsu related to 16.1
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

- (1) Filed as Exhibit 1.1 to the Registrant's Registration Statement on Form F-1, registration number 333-189910, filed with the Securities and Exchange Commission, and incorporated herein by reference.
- (2) Filed as Exhibit 2 to the Registrant's Report on Form 6-K filed the Securities and Exchange Commission, on August 22, 2013, and incorporated herein by reference.
- (3) Filed as Exhibit 2.1 to the Registrant's Registration Statement on Form F-1, registration number 333-189910, filed with the Securities and Exchange Commission, and incorporated herein by reference.
- (4) Filed as Exhibit 4.2(a) to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2011, and incorporated herein by reference.
- (5) Filed as Exhibit 4.2(b) to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2011, and incorporated herein by reference.
- (6) Filed as Exhibit 4.10 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010, and incorporated herein by reference.
- (7) Filed as Exhibit 10.7 to the Registrant's Registration Statement on Form F-1, registration number 333-189910, filed with the Securities and Exchange Commission, and incorporated herein by reference.
- (8) Filed as Exhibit 10.1 to the Registrant's Registration Statement on Form F-1, registration number 333-189910, filed with the Securities and Exchange Commission, and incorporated herein by reference.

- (9) Filed as Exhibit 11.1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2007, and incorporated herein by reference.
- (10) Filed as Exhibit 16.1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2007, and incorporated herein by reference.



Report of Independent Registered Public Accounting Firm

To the shareholders of
Supercom Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Supercom Ltd. and its subsidiaries as of December 31, 2017, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for deferred income taxes in 2017.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management and board of directors. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Tel-Aviv, Israel
May 21, 2018

/s/ Kesselman & Kesselman
Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member of PricewaterhouseCoopers
International Limited

We have served as the Company's auditor since 2017.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the shareholders of
Supercom Ltd.

We have audited the accompanying consolidated balance sheet of Supercom Ltd. (the "Company") and its subsidiaries as of December 31, 2016, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company and its subsidiaries as of December 31, 2016, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Brightman Almagor Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel
May 24, 2017

Tel Aviv - Main Office

1 Azrieli Center Tel Aviv, 6701101 P.O.B. 16593 Tel Aviv, 6116402 | Tel: +972 (3) 608 5555 | Fax: +972 (3) 609 4022 | info@deloitte.co.il

Jerusalem
3 Kiryat HaMada
Har Hotzvim Tower
Jerusalem, 914510
D. BOX 45396

Tel: +972 (2) 501 8888
Fax: +972 (2) 537 4173
info-jer@deloitte.co.il

Haifa
5 Maraleh Hashichzur
P.O.B. 3648
Haifa, 3105502

Tel: +972 (4) 860 7333
Fax: +972 (4) 867 2528
info-haifa@deloitte.co.il

Beer Sheva
12 Alunot
Omer Industrial park
P.O.B. 1369
Omer, 8496500

Tel: +972 (8) 690 9500
Fax: +972 (8) 690 9600
info-beersheva@deloitte.co.il

Eilat
The City Center
P.O.B. 583
Eilat, 8810402

Tel: +972 (8) 637 5676
Fax: +972 (8) 637 1628
info-eilat@deloitte.co.il

Petah Tikva
Deloitte Analytics
7 Hasivim
P.O.B. 6712
Petah Tikva, 4959368

Tel: +972 (73) 399 4163
Fax: +972 (3) 919 0372
info@deloitte.co.il

Netanya
Seker - Deloitte
7 Gaborny Israel St.
P.O.B. 8408
Netanya, 4250407

Tel: +972 (9) 892 2444
Fax: +972 (9) 892 2440
info@deloitte.co.il

Nazareth
9 Marj (Bn Amer) St.
Nazareth, 16100

Tel: +972 (73) 399 4455
Fax: +972 (73) 399 4455
info-nazareth@deloitte.co.il

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SUPERCOM LTD.
CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands, except share data)

	<i>As of December 31,</i>	
	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	1,037	1,708
Restricted bank deposit	1,063	1,110
Trade accounts receivable, net of allowance for doubtful accounts of \$2,341 and \$2,014 as of December 31, 2017 and 2016, respectively (Note 15)	12,456	10,310
Other accounts receivable and prepaid expenses (Note 3)	2,698	2,500
Inventories, net (Note 4)	4,876	5,492
Patents	5,283	-
TOTAL CURRENT ASSETS	27,413	21,120
LONG-TERM ASSETS		
Severance pay funds (Note 2.l)	319	282
Deferred tax long term	4,505	(*)4,223
Property and equipment, net (Note 6)	1,218	1,638
Other Intangible assets, net (Note 7)	11,910	13,901
Goodwill	7,026	7,026
Patents	-	5,283
Other non-current assets	1,807	-
TOTAL LONG-TERM ASSETS	26,785	32,353
TOTAL ASSETS	54,198	53,473
CURRENT LIABILITIES		
Short-term bank loans	738	-
Trade accounts payable	5,838	3,958
Employees and payroll accruals	4,910	2,948
Related parties (Note 13.c)	61	56
Accrued expenses and other liabilities (Note 8)	3,739	3,497
Deferred revenue	1,511	1,633
Short-term liability for future earn-out	1,163	679
TOTAL CURRENT LIABILITIES	17,960	12,771
LONG-TERM LIABILITIES		
Related parties (Note 13.d)	2,082	-
Deferred tax liability	49	(*)156
Deferred revenues	668	423
Long-term liability for future earn-out	147	946
Accrued severance pay	585	453
TOTAL LONG TERM LIABILITIES	3,531	1,978
TOTAL LIABILITIES	21,491	14,749
Commitments and contingent liabilities (Note 9)		
SHAREHOLDERS' EQUITY (Note 12)		
Ordinary shares, NIS 0.25 par value - authorized 18,000,000 shares, 14,958,339 shares issued and outstanding at December 31, 2017 and 14,938,339 shares issued and outstanding at December 31, 2016	1,026	1,024
Additional paid-in capital	82,157	81,515
Accumulated deficit	(50,476)	(43,815)
Total shareholders' equity	32,707	38,724
Total liabilities and shareholders' equity	54,198	53,473

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

(*) See note 2 regarding the adoption of ASU No. 2015-17, Income Taxes.

SUPERCOM LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. dollars in thousands, except share and per share data)

	Year ended December 31,		
	2017	2016	2015
Revenues			
Products	19,396	7,631	23,113
Services	13,868	12,394	5,227
Total revenues	33,264	20,025	28,340
Cost of revenues			
Cost of products	11,132	7,669	8,543
Cost of services	9,219	9,792	1,903
Total cost of revenues	20,351	17,461	10,446
Gross profit	12,913	2,564	17,894
Operating expenses:			
Research and development	7,238	6,718	3,669
Sales and marketing	8,099	9,970	6,611
General and administrative	6,113	7,277	3,947
Other expense (income), net	(2,021)	713	2,174
Gain from bargain acquisition	-	(10,515)	-
Total operating expenses	19,429	14,163	16,401
Operating income (loss)	(6,516)	(11,599)	1,493
Financial expenses, net	(538)	(303)	(277)
Income (loss) before income taxes	(7,054)	(11,902)	1,216
Income tax benefit (expense)	393	(2,091)	(197)
Net income (loss)	(6,661)	(13,993)	1,019
Net income (loss) per share:			
Basic	(0.45)	(0.93)	0.07
Diluted	(0.45)	(0.93)	0.07
Shares used in calculation of net income per share:			
Basic	14,938,943	15,048,812	15,047,496
Diluted	14,938,943	15,048,812	15,202,303

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

SUPERCOR LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(U.S. dollars in thousands, except share data)

	Ordinary Shares		Additional Paid-in Capital	Accumulated deficit	Total Shareholders' Equity
	Number of Shares	Share capital			
Balance as of January 1, 2015	13,742,585	937	58,210	(30,841)	28,306
Exercise of options and warrants	110,966	7	186	-	193
Issuance of share capital, net of issuance cost	2,415,000	159	26,967	-	27,126
Treasury shares acquired	(774,936)	(50)	(3,691)	-	(3,741)
Issuance of warrants	-	-	503	-	503
Stock based compensation	-	-	1,026	-	1,026
Net income	-	-	-	1,019	1,019
Balance as of December 31, 2015	15,493,615	1,053	83,201	(29,822)	54,432
Exercise of options and warrants	10,883	-	22	-	22
Treasury shares acquired	(566,159)	(29)	(2,632)	-	(2,661)
Stock based compensation	-	-	924	-	924
Net loss	-	-	-	(13,993)	(13,993)
Balance as of December 31, 2016	14,938,339	1,024	81,515	(43,815)	38,724
Exercise of options	20,000	2	11	-	13
Stock based compensation	-	-	631	-	631
Net loss	-	-	-	(6,661)	(6,661)
Balance as of December 31, 2017	14,958,339	1,026	82,157	(50,476)	32,707

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

SUPERCOR LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	Year ended December 31,		
	2017	2016	2015
CASH FLOWS - OPERATING ACTIVITIES			
Net income (loss)	(6,661)	(13,993)	1,019
Adjustments to reconcile net income to net cash from operations:			
Depreciation and amortization	3,906	3,005	1,673
Stock-based compensation	631	924	1,529
Decrease (increase) in deferred tax	(389)	738	187
Capital gain on sale of property and equipment	(4)	-	-
Gain on bargain purchase	-	(10,515)	-
Decrease (increase) in trade receivables, net	(2,146)	5,797	(3,666)
Decrease (increase) in other accounts receivable and prepaid expenses	(2,005)	(1,000)	39
Decrease (increase) in inventories, net	616	372	(1,988)
Increase (decrease) in trade payables	1,880	(79)	721
Increase in employees and payroll accruals	1,962	323	404
Increase (decrease) in accrued severance pay	132	75	(110)
Decrease in advances from customer	-	-	(2,864)
Increase (decrease) in accrued expenses and other liabilities, related parties and liability for earn-out	95	3,308	(618)
Net cash used in operating activities	(1,983)	(11,045)	(3,674)
CASH FLOWS - INVESTING ACTIVITIES			
Purchase of property and equipment	(301)	(400)	(541)
Purchase of Intangible assets	(27)	(39)	-
Proceeds from sale of property and equipment	4	-	-
Capitalization of software development costs	(1,167)	(1,487)	(2,099)
Capitalization of Precontract costs	-	(203)	-
Acquisitions of subsidiaries, net of cash acquired	-	(3,514)	(988)
Acquisition of group of assets (non-business)	-	(1,174)	-
Decrease (Increase) in severance pay fund	(37)	(58)	109
Restricted bank deposits, net	47	2,212	1,921
Net cash used in investing activities	(1,481)	(4,663)	(1,598)
CASH FLOWS - FINANCING ACTIVITIES			
Short-term bank loan, net	738	-	-
Related parties	2,082	-	-
Treasury shares acquired	-	(2,661)	(3,741)
Proceeds from issuance of share capital, net of issuance costs	-	-	27,126
Payment of liability for future earn-out in business combination	(40)	(2,191)	(849)
Proceeds from exercise of options and warrants, net	13	22	193
Net cash provided by (used in) financing activities	2,793	(4,830)	22,729
Increase (decrease) in cash and cash equivalents	(671)	(20,538)	17,457
Cash and cash equivalents - beginning of year	1,708	22,246	4,789
Cash and cash equivalents - end of year	1,037	1,708	22,246

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

SUPERCOM LTD
CONSOLIDATED STATEMENTS OF CASH FLOW
(U.S. dollars in thousands)

	<u>Year</u> <u>Ended</u> <u>December 31,</u> <u>2017</u>	<u>Year</u> <u>Ended</u> <u>December 31,</u> <u>2016</u>
Supplemental disclosure of cash flow information:		
Appendix A:		
Acquisitions of subsidiaries consolidated for the first time		
Assets and liabilities of the acquired business, as of date of acquisition:		
Working capital (excluding cash and cash equivalents)	-	2,105
Property and equipment, net	-	365
Deferred taxes, net	-	733
Intangible Assets including goodwill	-	11,251
Contingent consideration	-	(425)
	<u>-</u>	<u>14,029</u>
Gain on bargain purchase (*)	<u>-</u>	<u>(10,515)</u>
Acquisitions of subsidiaries, net of cash acquired	<u>-</u>	<u>3,514</u>
Cash paid during the year for:		
Interest	10	-

(*) Gain on bargain purchase is attributed to two of the acquisitions, see Note 5 for more information

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1: GENERAL

- a. SuperCom Ltd. (the “Company”) is an Israeli resident company organized in 1988 in Israel. On January 24, 2013 the Company changed its name back to SuperCom Ltd, its original name, from Vuance Ltd. On September 12, 2013, the Company’s ordinary shares were approved for listing on the NASDAQ Capital Market and began trading under the ticker symbol “SPCB” on September 17, 2013. Previously, the Company’s ordinary shares traded on the OTCQB® electronic quotation service.

The Company is a global provider of traditional and digital identity solutions, providing advanced safety, identification, tracking and security products to governments and organizations, both private and public, throughout the world. The Company provides cutting edge real-time positioning, tracking, monitoring and verification solutions enabled by its RFID & Mobile pure security advanced solutions suite of products and technologies, all connected to a web-based, secure, proprietary, interactive and user-friendly interface. The Company offers a wide range of solutions including, national ID registries, e-passports, biometric visas, automated fingerprint identification systems, digitized driver’s licenses, and electronic voter registration and election management using the common platform (“MAGNA”). The Company sells its products through marketing offices in the U.S, Tanzania, Panama, Ecuador and Israel.

- b. On December 26, 2013 the Company acquired the SmartID Division of On Track Innovations Ltd. (NASDAQ: OTIV) (“OTI”), consisting of customer contracts, software, other related technologies and IP assets. The Company paid OTI approximately \$8,800 (\$10,000 less certain price adjustments) at the closing and agreed to make contingent payments of up to \$12,500 pursuant to an earn-out mechanism based on certain performance and other milestones. The SmartID Division has a strong international presence, with a broad range of competitive and well-known e-Gov solutions and technology. The acquisition significantly expanded the breadth of the Company’s e-Gov capabilities globally, while providing it with market and technological experts, together with its ID software platforms and technologies.

In June 2015, the Company has completed an offering which included an issuance of 2,415,000 shares with total net proceeds of \$27,126.

On January 1, 2016, the Company acquired Leaders in Community Alternatives, Inc., or LCA, a U.S. based company, including all contracts, software, other related technologies and IP assets. The Company paid approximately \$2,900 at the closing and committed to certain contingent earn-out payments over the next three years that are structured as a single digit percentage of annual revenues in excess of standalone LCA management revenue projections. LCA is a California based, private criminal justice organization, providing community-based services and electronic monitoring programs to government agencies in the U.S. for more than 24 years. LCA offers a broad range of competitive solutions for governmental institutions across the U.S. in addressing realignment strategies and plans.

In addition to LCA, during the first half of 2016 the Company acquired Safend Ltd., Alvarion Technologies Ltd. and the assets and IP of PowaPOS. For additional information refer to Note 5.

As of December 31, 2017, the Company’s principal activities were conducted mainly through SuperCom Ltd, Alvarion Ltd, Prevision Ltd, Safend Ltd, SuperCom Inc. and LCA Inc.

- c. Concentration of risk that may have a significant impact on the Company:

In the year ended December 31, 2017, the Company derived 50% of its revenues from five major customers.

In the year ended December 31, 2016, the Company derived 32% of its revenues from four major customers.

In the year ended December 31, 2015, the Company derived 94% of its revenues from six major customers.

See also Note 14c.

As of December 31, 2017, the Company has accumulated deficit \$50,476, and net cash used in operating activities of \$1,983.

As of December 31, 2017, the Company has accumulated deficit \$50,476, and net cash used in operating activities of \$1,983. In addition the Company has excess of current assets over current liability of \$4,500.

During 2017 and until end of June 2018, the Company is undergoing a merger optimization process to be a more efficient structure to operate through three new business segments, supported by common operation services. Following the optimization process, for the year 2018 the Company is expecting to reduce its expenses through the reduction in its headcount and overhead costs (mainly over the year 2018), that will result in a reduction of operating expenses, including a significant reduction of R&D expenses.

The Company believes that based on the above mentioned significant cost savings and based on cash flows from the Company’s current contracts with customers around the world, it will generate positive cash flows from operating activities, and will be able to fund its operations for at least next 12 months from the financial statement issuance date.

In addition, the Company's current related parties have granted the Company an additional line of credit of up to \$1.5 million and committed not to demand repayment of its outstanding loan within the next 12 months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The Company purchases certain services and products used by it to generate revenues in its projects and sales from several sole suppliers. Although there are only a limited number of manufacturers of those particular services and products, management believe that other suppliers could provide similar services and products on comparable terms without affecting operating results.

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

a. Use of estimates:

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

b. Financial statements in U.S. dollars:

Most of the revenues of the Company and its subsidiaries are received in U.S. dollars. In addition, a substantial portion of the costs of the Company and its subsidiaries are incurred in U.S. dollars. Therefore, management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the U.S. dollar.

Transactions and balances denominated in U.S. dollars are presented at their original amounts. Monetary accounts denominated in currencies other than the dollar are re-measured into dollars in accordance with ASC No. 830, "Foreign Currency Matters". All transaction gains and losses from the re-measurement of monetary balance sheet items are reflected in the statements of operations as financial income or financial expenses as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Material intercompany transactions and balances were eliminated upon consolidation. Material profits from intercompany sales, not yet realized outside the group, were also eliminated.

d. Cash and cash equivalents:

The Company considers unrestricted short-term highly liquid investments originally purchased with maturities of three months or less to be cash equivalents.

e. Restricted Cash:

Restricted cash held in interest bearing saving accounts which are used as a security for the Company's Israeli facility leasehold bank guarantee, and as a security for ongoing terms of the contracts with existing customers and commercial tenders guarantees.

f. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined with respect to specific amounts the Company has determined to be doubtful of collection. In determining the allowance for doubtful accounts, the Company considers, among other things, its past experience with such customers and the information available regarding such customers.

g. Inventories:

Inventories are stated at the lower of cost or net realizable value. Inventory write-offs are mainly provided to cover risks arising from slow-moving items or technological obsolescence. Cost is determined for all types of inventory using the moving average cost method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

h. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation.

Depreciation is computed using the straight-line method, over the estimated useful lives, at the following annual rates:

	%
Computers and peripheral equipment	33
Office furniture and equipment	6 - 20
Leasehold improvements	Over the shorter of the term of the lease or the life of the asset

i. Intangible assets:

Intangible assets that are not considered to have an indefinite useful life are amortized using units of production and the straight-line basis over their estimated useful lives, as noted below. Recoverability of these assets is measured by a comparison of the carrying amount of the asset to the undiscounted future cash flows expected to be generated by the assets. If the assets are considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired assets.

Intangible assets and their useful lives are as follows:

	Useful Life (in Years)
Customers relationships & Other	Between 4.5-13 (mainly 13)
IP & Technology	Between 4-15 (mainly 15)
Capitalized software development costs	Between 4-5

As of December 31, 2017, and 2016 no impairment losses were identified.

Acquisition-related intangible assets:

The Company accounts for its business combinations in accordance with ASC 805 “Business Combinations” and with ASC 350-20 “Goodwill and Other Intangible Assets” (“ASC 350-20”). ASC 805-10 specifies the accounting for business combinations and the criteria for recognizing and reporting intangible assets apart from goodwill.

Acquisition-related intangible assets result from the Company’s acquisitions of businesses accounted for under the purchase method and consist of the value of identifiable intangible assets including developed software products, brand and patents, as well as goodwill. Goodwill is the amount by which the acquisition cost exceeds the fair values of identifiable acquired net assets on the date of purchase. Acquisition-related intangible assets are reported at cost, net of accumulated amortization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

j. Goodwill:

The Company's goodwill reflects the excess of the consideration paid or transferred including the fair value of contingent consideration over the fair values of the identifiable net assets acquired. The goodwill impairment test is performed by evaluating an initial qualitative assessment of the likelihood of impairment. If this step indicates that the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. If it does result in a more likely than not indication of impairment, the impairment test is performed.

In step one of the impairment test, the Company compares the fair value of the reporting unit to the carrying value of the reporting unit. If the fair value of the reporting unit exceeds the carrying value of the net assets allocated to that unit, goodwill is not impaired, and no further testing is required. If the fair value is less than the carrying value of the reporting unit, then the second step of the impairment test is performed to measure the amount of the impairment.

In the second step, the reporting unit's fair value is allocated to all the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that simulates the business combination principles to derive an implied goodwill value. If the implied fair value of the reporting unit's goodwill is less than its carrying value, the difference is recorded as impairment.

For the years ended December 31, 2017 and 2016 the Company performed an annual impairment analysis and no impairment losses have been identified.

k. Impairment of long-lived assets and intangible assets:

The Company's long-lived assets and certain identifiable intangible assets are reviewed for impairment 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 an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

l. Long lived assets held for sale:

The company accounted for its long lived assets held for sale under ASC 360-10 ("Impairment or disposal of Long-lived Assets").

Under management decision, the patents acquired under Alvarion Ltd. and Safend Ltd. acquisitions during 2016, were not intended for internal use by the Company, and thus accounted for as Long lived assets held for sale. During 2016, the Company negotiated with several customers to enter into direct sales agreement for these patents. During 2017, following management decision, the Company elected to enter into engagements with several brokers for the purpose of marketing and sale of those patents. Realization costs of the patents are immaterial.

For the years ended December 31, 2017 and 2016 the Company did not identify any triggers for impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

m. Accrued severance pay and severance pay fund:

The liabilities of the Company for severance pay of its Israeli employees are calculated pursuant to Israel's Severance Pay Law. Employees are entitled to one month's salary for each year of employment, or portion thereof. The Company's liability for all its employees is presented under "accrued severance pay". The Company deposits on a monthly basis to severance pay funds and insurance policies. The value of these policies is presented as an asset on the Company's balance sheet.

The deposited funds include accrued income up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the Company's obligation pursuant to Israel's Severance Pay Law or labor agreements.

Severance expenses for the years ended December 31, 2017, 2016 and 2015 amounted to \$860, \$876 and \$607, respectively.

n. Revenue recognition:

The Company and its subsidiaries generate their revenues from the sale of products, licensing, maintenance, royalties and long term contracts (including training and installation).

Sales of Products

Product sales are recognized in accordance with ASC 605-10, when persuasive evidence of an agreement exists, delivery of the product has occurred or services have been rendered, the fee is fixed or determinable, collectability is reasonably assured, and inconsequential or perfunctory performance obligations remain. If the product requires specific customer acceptance, revenue is deferred until customer acceptance occurs or the acceptance provision lapses.

The Company is not obligated to accept returned products or issue credit for returned products, unless a product return has been approved by the Company in advance and according to specific terms and conditions. As of December 31, 2017, the Company had allowance for customer returns at an insignificant amount.

Warranty period is usually 12 months. Based primarily on historical experience, the Company does not provide for warranty costs when revenue is recognized, since such costs are not material.

Rendering of Service

Revenue from logistics services is recognized when the services are rendered. Revenues from maintenance services are recognized over the term of the contracts. Where services are provided in stages, revenue is recognized using the percentage-of-completion method based on the actual service provided as a proportion of the total services to be performed.

Revenue from long-term contracts

The Company recognized certain long-term contract revenues in accordance with ASC Topic 605-35, "Construction-Type and Production-Type Contracts". Pursuant to ASC Topic 605-35, revenues from these contracts are recognized under the percentage-of-completion method. The Company measures the percentage-of-completion based on output or input criteria, such as contract milestones, percentage of engineering completion or number of units shipped, as applicable to each contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first identified, in the amount of the estimated loss on the entire contract.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Company's management believes that the use of the percentage of completion method is appropriate in these cases since most of our contracts specify milestones achievements in details, as to allow determination of progress made towards completion. In addition, the Company's contracts include provisions that clearly specify the enforceable rights of the parties to the contract, the consideration to be exchanged and the manner and terms of settlement.

In all cases, the Company expects to perform its contractual obligations and the parties are expected to satisfy their obligations under the contract.

Software Licensing and Maintenance

The company applies software revenue recognition in accordance to ASC 985-650 to all transactions except those where no software is involved. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Persuasive evidence is generally a binding purchase order or license agreement. Delivery occurs when product is delivered via a license key for our license upgrade agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

o. Revenue recognition (cont.):

For arrangements with multiple elements, including software licenses, maintenance and/or services, revenue is allocated and deferred in amounts equivalent to the vendor specific objective evidence (“VSOE”) of fair value for the undelivered elements. VSOE of fair value is based upon the price for which the undelivered element is sold separately. Safend was unable to determine VSOE for its PCS and as a result revenues from licenses are recognized pro-ratably over the PCS term.

Revenues from maintenance services are recognized over the term of the contracts.

p. Research and development costs and software development costs:

Research and development costs are expensed as incurred. Software development costs eligible for capitalization are accounted for in accordance with 985-20 Software — Costs of Software to be Sold, Leased or Marketed. Capitalization of software development costs for products to be sold to third parties begins upon the establishment of technological feasibility and ceases when the product is available for general release. Amortization is calculated and provided over the estimated economic life of the software, using the straight-line method. Amortization commences when developed software is available for general release to clients.

The estimated useful life of capitalized software development costs is between 4 to 5 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

q. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC Topic 740, "Income Taxes". This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws, that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

The Company accounts for uncertain tax positions in accordance with ASC Topic 740-10, which prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. According to ASC Topic 740-10, tax positions must meet a more-likely-than-not recognition and measurement threshold. The Company's accounting policy is to classify interest and penalties relating to uncertain tax positions under income taxes, however the Company did not recognize such items in its fiscal 2017, 2016 and 2015 financial statements.

ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, requires a reporting entity to classify all deferred tax assets and liabilities as noncurrent in a classified balance sheet. As of December 31, 2017, the Company adopted in a retrospective method the new Income Tax guidelines, stating all deferred tax assets and liabilities need be presented as non-current in the balance sheet.

r. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash deposits and trade receivables. The Company's trade receivables are derived from sales to customers located primarily in Eastern Europe, Africa, the United States and South America. The Company performs ongoing credit evaluations of its customers' financial condition. The allowance for doubtful accounts is determined with respect to specific debts that the Company has determined to be doubtful of collection.

Cash and cash equivalents and restricted cash deposits are deposited with major banks in Israel and the United States. Management believes that such financial institutions are financially sound and, accordingly, minimal credit risk exists with respect to these financial instruments. The Company has no significant off-balance-sheet concentration of credit risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

s. Basic and diluted earnings per share:

Basic earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year, plus the dilutive potential of stock options and warrants outstanding during the year using the treasury stock method.

The numbers of potential shares from the conversion of options and warrants that have been excluded from the calculation were 351,056, 333,526, and 392,124 for the years ended December 31, 2017, 2016 and 2015, respectively.

t. Fair value of financial instruments:

The Company applies ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"), pursuant to which fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company.

Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

The carrying amounts of cash and cash equivalents, restricted cash, short-term bank deposits, other accounts receivable, trade payable, and other accounts payable and accrued expenses approximate their fair values due to the short-term maturities of such instruments.

The Company measures its earn-out liability at fair value (see also Note 11).

u. Accounting for stock-based compensation:

Stock-based compensation, including grants of stock options, is recognized in the consolidated statement of operations over the requisite service period as an operating expense, based on the fair value of the award on the date of grant. The fair value of stock-based compensation is estimated using an option-pricing model.

The Company elected to recognize compensation costs for awards conditioned only on continued service that have a graded vesting schedule using the straight-line method and to value the awards based on the single-option award approach.

The Company accounts for forfeitures as they occur.

v. Treasury Shares:

Treasury shares are recorded at cost and presented as a reduction of shareholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

w. Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("the Standard"). The Standard provides companies with a single model for recognizing revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer. The new disclosure requirements will provide information about the nature, amount, timing and uncertainty of revenue and cash flows from revenue contracts with customers. The Standard is effective for annual and interim reporting periods beginning after December 15, 2017. Entities have the option of using either a full retrospective or modified retrospective approach for adopting this Standard. Under the modified approach, which the Company has elected, the Company will recognize the cumulative effect of initially applying the guidance with an adjustment to the opening balance of retained earnings in the first quarter of 2018.

The Company is in its final stage of assessment of the Standard's impact on its consolidated financial statements. The Company identified certain areas that may be affected, including identifying new performance obligations, as well as assessing the existence of significant financing components in some of its transactions. In addition, the Company expects to capitalize certain incremental costs of obtaining contracts.

For its software license transactions - the Company would recognize revenue for the software license performance obligation upon delivery of the license to the customer, rather than ratably over the service period.

For the Company's long term contracts, which are currently accounted for under the Percentage of Completion Method, the Company is still evaluating whether the control of the goods or services are transferred to the customer over time or at a point in time.

For those contracts for which it is determined that the performance obligation creates an asset with no alternative use and the Company has the right for payment to the work completed to date, revenue would be recognized over time, in a manner similar to current accounting. However, if determined otherwise for one or more contracts, revenue from those contracts would be recognized at a point in time, and revenue would be deferred compared to current accounting.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are classified in the statement of cash flows. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows, Restricted Cash (Topic 230) (ASU 2016-18), which requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-15 and ASU 2016-18 are both effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, provided that all of the amendments are adopted in the same period. The amendments will be applied using a retrospective transition method to each period presented.

The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes ASC 840, Leases. This ASU requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for most leases, whereas currently only financing-type lease liabilities (capital leases) are recognized on the balance sheet. In addition, the definition of a lease has been revised with respect to when an arrangement conveys the right to control the use of the identified asset under the arrangement, which may result in changes to the classification of an arrangement as a lease. The ASU does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Lessors' accounting under the ASU is largely unchanged from the previous accounting standard. The ASU expands the disclosure requirements of lease arrangements. Under current guidance, lessees and lessors will use a modified retrospective transition approach, which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. The guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.

The Company is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

In January 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses on Financial Instruments", which requires that expected credit losses relating to financial assets measured on an amortized cost basis and available for sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available for sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective for interim and annual periods beginning after January 1, 2020, and early adoption is permitted.

The Company is currently evaluating whether to early adopt this standard and the potential effect on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination.

The guidance is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. The Company is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The ASU amends the scope of modification accounting for share-based payment arrangements, and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance will allow companies to make certain changes to awards without accounting for them as modifications. It does not change the accounting for modifications. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued.

The Company is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

x. Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no net effect on previously reported results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 3: OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2017	2016
	\$	\$
Prepaid expenses	141	304
Advances to suppliers	211	245
Government institutions	118	708
Recovery of pre-acquisition receivable	1,384	-
Other	844	1,243
	<u>2,698</u>	<u>2,500</u>

NOTE 4: INVENTORIES, NET

	December 31,	
	2017	2016
	\$	\$
Raw materials, parts and supplies	1,707	1,758
Finished products	3,169	3,734
	<u>4,876</u>	<u>5,492</u>

As of December 31, 2017 and 2016, inventory is presented net of write offs for slow inventory in the amount of approximately \$232 and \$218, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 5: ACQUISITION

Purchase agreement with OTI

On August 13, 2013, the Company entered into an asset purchase agreement with OTI, to acquire OTI's SmartID Division, including all contracts, software, other related technologies and IP assets. The acquisition closed on December 26, 2013.

The Company agreed to pay OTI \$10,000 and contingent consideration of up to \$12,500 pursuant to an earn-out mechanism based on certain performance and other milestones.

On April 22, 2016 the Company concluded further negotiations with OTI with respect to the earn-out liability by which an agreement with OTI was signed. Under this agreement the remaining earn-out amount was set to a maximum \$3,550, out of which an amount of \$2,050 was paid at the beginning of May 2016 and the remaining amount of \$1,500 will be subject to the original earn out mechanism.

The expected intangible assets amortization expenses for the customer contracts and for software and other IP, are as follows:

	\$
2018	855
2019	764
2020	690
2021	629
2022	579
2023-2028	2,682

Purchase of Prevision Ltd.

In November, 2015 the Company acquired 100% of the shares of Prevision Ltd. ("Prevision"), a Cyber Security company domiciled in Israel. The acquisition was accounted for as a business combination. The total consideration of approximately \$1,100 was allocated to assumed liabilities, net, of \$200 and approximately \$1,300 recognized as customer relations and goodwill. The purchase agreement includes contingent consideration of annual payments of approximately \$250 for the next four years to the former CEO of the company ("Seller"). The contingent consideration is subject to service provided by the Seller to the company during the earn-out period and therefore is not part of the business combination and accounted as compensation expenses as incurred.

Intangible assets' depreciated cost amounted to \$1,185 and \$1,229 as of December 31, 2017 and 2016, respectively. Amortization cost amounted to \$44 and \$51 in 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 5: ACQUISITION (cont.)

Purchase of Leaders in Community Alternatives Inc.

In January 2016 the Company acquired 100% of the shares of Leaders in Community Alternatives (LCA), a company providing electronic monitoring and community-based services. The acquisition amounted to approximately \$2,900 not including contingent consideration subject to an earn out mechanism which has a fair value of zero, derived from LCA's revenues in the years 2016, 2017 and 2018. The acquisition was accounted for as business combination.

Details of the consideration paid, the assets acquired and liabilities assumed at the acquisition date, are as follows:

Total consideration	\$	2,918
Acquired assets and liabilities		
Capital acquired		435
Customer relations		424
Deferred tax liability		(170)
Goodwill		2,229

Intangible assets' depreciated cost amounted to \$2,537 and \$2,592 as of December 31, 2017 and 2016, respectively. Amortization cost amounted to \$56 and \$61 in 2017 and 2016, respectively.

Purchase of Safend Ltd.

In March 2016 the Company acquired 100% of Safend Ltd, a company providing encryption and data protection solutions. As a consideration for the acquisition the Company will provide Safend Ltd. up to \$1,500 of working capital to support its business operations. The acquisition was accounted for as business combination. As a result of the acquisition the Company recorded a gain from bargain purchase in the amount of approximately \$3,700. The gain is attributed to the fact that we acquire Safend for no consideration due to Safend former parent was filed for bankruptcy.

Details of the consideration paid, the assets acquired and liabilities assumed at the acquisition date, are as follows:

Total consideration	\$	0
Acquired assets and liabilities		
Capital acquired		(145)
Customer relations		1,912
IP		346
Patents		1,508
Deferred tax asset		606
Deferred tax liability		(565)
Gain from bargain purchase		3,662

Intangible assets' depreciated cost amounted to \$2,528 and \$3,146 as of December 31, 2017 and 2016, respectively. Amortization cost amounted to \$618 and \$619 in 2017 and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 5: ACQUISITION (cont.)

Purchase of PowaPOS' assets and IP

On April 18, 2016, the Company acquired IP, Inventory and Receivable of PowaPOS, a division of POWA Technologies Ltd. PowaPOS provides a fully-integrated mobile and tablet-based system innovative POS platform. The asset's acquisition's consideration amounted to approximately \$1,174. The assets acquired, at the acquisition date are IP in the amount \$493, inventory in the amount of \$543 and receivables in the amount of \$138

Purchase of Alvarion Technologies Ltd.

On May 18, 2016, the Company acquired Alvarion Technologies Ltd. ("Alvarion"). In consideration for this acquisition, the Company will pay up to \$1,000 in cash and an additional earn-out of up to \$1,000 during the next two years following the acquisition, mainly based on sales from the Alvarion division (see also Note 11). As a result of the acquisition the Company recorded a gain from bargain purchase in the amount of \$6,853. The gain is attributed to the fact that we acquired Alvarion from a trustee after it went bankrupt.

Details of the consideration paid, the assets acquired and liabilities assumed at the acquisition date, are as follows:

Total consideration	\$	1,425
Acquired assets		2,705
Technology		739
Brand		290
Patents		3,775
Deferred tax asset		1,026
Deferred tax liability		(257)
Gain from bargain purchase		6,853

Depreciated cost amounted to \$4,440 and \$4,664 as at December 31, 2017 and 2016. Amortization cost amounted to \$225 and \$140 in 2017 and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 6: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2017	2016
	\$	\$
Cost:		
Computers and peripheral equipment	2,629	2,539
Office furniture and equipment	774	801
Trade Equipment	35	35
Leasehold improvements	427	427
Equipment in lease	711	473
Vehicle	-	29
	<u>4,576</u>	<u>4,304</u>
Accumulated depreciation:		
Computers and peripheral equipment	2,385	1,978
Office furniture and equipment	627	580
Trade Equipment	2	2
Leasehold improvements	139	77
Equipment in lease	205	-
Vehicle	-	29
	<u>3,358</u>	<u>2,666</u>
Depreciated cost	<u>1,218</u>	<u>1,638</u>

Depreciation expenses for the years ended December 31, 2017, 2016 and 2015, were \$721, \$1,748, and \$291, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 7: OTHER INTANGIBLE ASSETS, NET

Other intangible assets consisted of the following:

	December 31, 2017			December 31, 2016		
	Carrying Amount	Accumulated Amortization	Net Book Value	Carrying Amount	Accumulated Amortization	Net Book Value
Customers relationships & Other	8,734	4,987	3,747	8,707	3,513	5,194
IP & Technology	7,019	2,079	4,940	7,019	1,339	5,680
Capitalized software development costs	4,738	1,515	3,223	3,586	559	3,027
	<u>20,491</u>	<u>8,581</u>	<u>11,910</u>	<u>19,312</u>	<u>5,411</u>	<u>13,901</u>

Amortization expenses amounted to \$3,184, \$2,517 and \$1,382 for the years ended December 31, 2017, 2016 and 2015 respectively.

NOTE 8: ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31	
	2017	2016
	\$	\$
Liabilities related with the Smart ID acquisition (see note 9 c1)	805	805
Accrued marketing expenses	647	818
Professional services	598	318
Facilities	351	122
Legal contingent liability	17	236
Legal service providers	207	508
Other accrued expenses	1,114	690
	<u>3,739</u>	<u>3,497</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company's facilities and those of certain subsidiaries are rented under several operating lease agreements for periods ending between 2018 and 2020. The monthly lease amount, including management fees of the leased property, is approximately \$172.

The Company is in negotiation for lease agreement for its offices in Israel, for which the current lease period is expired on 30 June, 2018.

Future minimum lease commitments under non-cancelable operating leases for the years ended December 31, are as follows:

2018	1,164
2019	191
2020	188
	<u>1,543</u>

Rent expenses amounted to \$2,065, \$2,062 and \$884 for the years ended December 31, 2017, 2016 and 2015, respectively.

b. Guarantees, indemnity and liens:

1. The Company and its subsidiaries issued bank guaranties in the total amount of approximately \$950 as a part of the ongoing terms of the contracts with existing customers and for tenders.
2. The Company has bank guarantees of up to NIS 109 (\$32 as of December 31, 2017) to the owners of its offices leases in Herzliya.
3. On April 29, 2012, the Company's board of directors approved the recording of a floating charge on all of the Company's assets in favor of the Company's chairmen of the board of directors and CEO, unlimited in amount, in order to secure personal guarantees granted by them in favor of the Company, such as to a bank in order to secure short-term loans that are given by them from time to time to the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

c. Litigation:

- (1) As part of the acquisition of the SmartID division of OTI, the Company assumed a dispute with Merwell Inc. ("Merwell"). Merwell has alleged that it has not received the full payment it is entitled to for its services in respect of a drivers' license project. OTI alleged that Merwell breached its commitments under the service agreement and also acted in concert with third parties to damage OTI's business activities. This matter is now subject to an arbitration proceeding. An appropriate provision is included in the financial statements.
- (2) In August 2016, three claims previously filed against the Company and a number of defendants affiliated with the Company were consolidated into a class action lawsuit. The claims assert causes of action based on alleged false and misleading projections made by the Company in 2015. The complaint seeks unspecified compensatory damages. The Company believes that the claim has no merits and that the probability of the legal proceeding resulting in an unfavorable outcome to the Company is remote.

NOTE 10: INCOME TAX

a. Changes in Israeli corporate tax rates:

The regular corporate tax rate in Israel in 2017 is 24% (2016: 25%; 2015: 26.5%).

On August 5, 2013 the Israeli parliament (the Knesset) passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) - 2013, by which, inter alia, the corporate tax rate would be raised by 1.5% to a rate of 26.5% as from 2014. On January 4, 2016, the Knesset plenum approved a bill to amend the Income Tax Ordinance, including a reduction in corporate tax by 1.5% from 26.5% to 25%, as from January 1, 2016.

Under an amendment enacted in December 2016 to the Israel Income Tax Ordinance of 5721-1961, or the Tax Ordinance, the corporate tax rate will decrease to 23% for 2018 and thereafter. Israeli companies are generally subject to capital gains tax at the corporate tax rate

b. Non-Israeli subsidiaries are taxed according to the tax laws of the countries in which they are located.

c. Deferred income taxes:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 10: INCOME TAX (cont.)

	December 31,	
	2017	2016
	\$	\$
Operating loss carry forwards	16,322	13,625
Reserves and allowances	1,899	913
Net deferred tax assets before valuation allowance	18,221	14,538
Valuation allowance	(13,765)	(10,471)
Net deferred tax assets	4,456	4,067
Deferred income taxes consist of the following:		
Domestic	11,931	8,987
Valuation allowance	(7,426)	(4,867)
Net deferred tax assets	4,505	4,120
Foreign	6,290	5,550
Valuation allowance	(6,339)	(5,604)
	(49)	(54)

As of December 31, 2017, the Company and its subsidiaries, have provided a valuation allowance of \$13,765 in respect of deferred tax assets resulting from tax loss carryforwards and other temporary differences. Other tax loss carryforwards and temporary differences in the amount of \$4,456 were not provided with valuation allowance as the Company's management currently believes that these tax assets are more likely than not to be recovered.

d. Carryforward tax losses:

As of December 31, 2017, SuperCom Ltd and its subsidiaries in Israel have accumulated losses for tax purposes of approximately \$28,749, and \$1,565 respectively, which may be carried forward and offset against taxable income in the future for an indefinite period. SuperCom Ltd. also has a capital loss of approximately \$15,326, which may be carried forward and offset against capital gains for an indefinite period. Loss carryforwards in Israel are measured in NIS.

As of December 31, 2017, SuperCom's subsidiaries in the United States have estimated total available carryforward tax losses of approximately \$15,771 which expires in the years 2028 to 2037. Utilization of the U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

SuperCom Ltd has assessments which are considered as final until the tax year ended December 31, 2012.

SuperCom's subsidiaries in the United States and Israel have not received final assessments since their incorporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 10: INCOME TAX (cont.)

- e. Income (loss) before income tax consists of the following:

	Year ended December 31,		
	2017	2016	2015
	\$	\$	\$
Domestic	(6,215)	(9,634)	915
Foreign	(839)	(2,268)	301
	<u>(7,054)</u>	<u>(11,902)</u>	<u>1,216</u>

Substantially, all tax (expenses) benefits are as a result of changes in deferred taxes.

- f. Reconciliation of the theoretical tax benefit to the actual tax benefit:

A reconciliation of theoretical tax expense, assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and the actual tax expense (benefit), is as follows:

	Year ended December 31,		
	2017	2016	2015
	\$	\$	\$
Income (loss) before income tax, as reported in the consolidated statements of operations	(7,054)	(11,902)	1,216
Statutory tax rate in Israel	<u>24%</u>	<u>25%</u>	<u>26.5%</u>
Theoretical tax expense (benefit)	(1,693)	(2,976)	322
Current year carryforward losses and other differences for which a valuation allowance was recorded	-	-	2
Changes in valuation allowance	3,295	5,257	(211)
Gain from bargain purchase and non-recoverable withholding taxes	-	(1,516)	-
Changes in foreign currency exchange rate and other differences	(1870)	255	44
Changes in tax rate	414	828	-
Non-deductible expenses and other differences	<u>(539)</u>	<u>243</u>	<u>40</u>
Actual income tax expense (benefit)	<u>(393)</u>	<u>2,091</u>	<u>197</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 11: FAIR VALUE MEASUREMENTS

In accordance with ASC 820 "Fair Value Measurements and Disclosures", the Company measures its earn-out liability at fair value. Earn-out liability is classified within Level 3 as the valuation inputs are based on inputs that are unobservable.

The measurement of earn-out liability is based on of the revenues derived from two businesses acquired: Alvarion and OTI, over a period of two and seven years following the acquisition dates, respectively. During the year ended December 31, 2017, the Company had an adjustment through the statement of operations of 635 mainly as a result of the updated revenue forecast for the OTI acquisition.

The Company's financial assets and liabilities measured at fair value on a recurring basis, consisted of the following types of instruments as of the following dates:

Description	December 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Earn-out liability *	698	-	-	698
Total financial liability	\$ 698	-	-	\$ 698

Description	December 31, 2016			
	Fair Value	Level 1	Level 2	Level 3
Earn-out liability *	1,333	-	-	1,333
Total financial liability	\$ 1,333	-	-	\$ 1,333

(*) Excluding liability in the amount of \$612 and \$292 for the year ended December 31, 2017 and 2016, respectively, to former CEO of Prevision related to the acquisition agreement, which is not measured at fair value.

NOTE 12: SHARE CAPITAL

- a. The Company's ordinary shares are quoted under the symbol "SPCB" on the NASDAQ Capital Market in the United States.

In June 2015, 2,415,000 ordinary shares (including the full exercise of an over-allotment option) were issued in an underwritten public offering, for aggregate gross proceeds of \$28,980 (net proceeds of \$27,126).

In December 2015, as part of the Company's stock repurchase plan, the Company repurchased 774,936 shares, at an average cost of \$4.80 per share. The repurchased shares were retired in March 2016.

During 2016, as part of the Company's stock repurchase plan, the Company repurchased additional 566,159 shares, at an average cost of \$4.74 per share. 1,250,546 shares were retired in March 2016.

- b. Shareholders' rights:

The ordinary shares confer upon the holders the right to receive notice to participate and vote in the general meetings of the Company, and the right to receive dividends, if declared.

- c. Stock options:

- In 2003, the Company adopted a stock option plan under which the Company issues stock options (the "Option Plan"). The Option Plan is intended to provide incentives to the Company's employees, officers, directors and/or consultants by providing them with the opportunity to purchase ordinary shares of the Company. Subject to the provisions of the Israeli Companies Law, the Option Plan is administered by the Compensation Committee, and is designed: (i) to comply with Section 102 of the Israeli Tax Ordinance or any provision which may amend or replace it and the rules promulgated thereunder and to enable the Company and grantees thereunder to benefit from Section 102 of the Israeli Tax Ordinance and the Commissioner's Rules; and (ii) to enable the Company to grant options and issue shares outside the context of Section 102 of the Israeli Tax Ordinance. Options granted under the Option Plan will become exercisable ratably over a period of three to five years or immediately in certain circumstances, commencing with the date of grant. The options generally expire no later than 10 years from the date of grant. Any options which are forfeited or canceled before expiration become available for future grants.

As a result of an amendment to Section 102 of the Israeli Tax Ordinance as part of the 2003 Israeli tax reform, and pursuant to an election made by the Company thereunder, capital gains derived by grantees arising from the sale of shares issued pursuant to the exercise of options granted to them under Section 102 after January 1, 2003, will generally be subject to a flat capital gains tax rate of 25%. However, as a result of this election, the Company will no longer be allowed to claim as an expense for tax purposes the amounts credited to such employees as a benefit when the related capital gains tax is payable by them, as the Company had previously been entitled to do under Section 102.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 12: SHARE CAPITAL (Cont.)

On June 27, 2007, the Compensation Committee and board of directors of the Company approved a new option plan under which the Company may grant stock options to the U.S. employees of the Company and its subsidiaries. Under this new option plan, the Company may grant both qualified (for preferential tax treatment) and non-qualified stock options. On August 15, 2007, the new option plan was approved by the shareholders of the Company at the general shareholders meeting.

In June 2013, the Option plan was extended for another period of ten years, until December, 31, 2023.

During the year 2015, the Company issued option to purchase up to 500,530 shares to several employees of the Company. The options (fair value of which was estimated at \$3,974) have a weighted average exercise price of \$5.80, and of such options, 41,882 were exercised and 81,000 were cancelled by the end of 2015.

During the year 2016, the Company issued option to purchase up to 67,883 shares to several employees of the Company. The options (fair value of which was estimated at \$208) have a weighted average exercise price of \$2.82, and of such options, 2,500 were exercised and 8,000 were cancelled by the end of 2016.

During the year 2017, the Company did not grant any option to purchase shares.

2. A summary of the Company's stock option activity and related information is as follows:

	Year ended December 31					
	2017		2016		2015	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at Beginning of year	416,432	4.24	487,432	5.12	137,855	2.64
Granted	-	-	67,833	2.82	500,530	5.80
Exercised	(20,000)	0.64	(8,383)	1.53	(65,411)	3.10
Canceled and forfeited	(64,772)	6.42	(130,500)	6.96	(85,542)	6.64
Outstanding at end of year	331,660	4.03	416,432	4.24	487,432	5.12
Exercisable at end of year	236,277	3.67	186,253	4.14	95,709	4.81

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 12: SHARE CAPITAL (Cont.)

The weighted average fair value of options granted during the year ended December 31, 2016 and 2015 was \$6.2 and \$7.94 per option, respectively.

The fair value of these options was estimated on the date of grant using the Black & Scholes option pricing model. The following weighted average assumptions were used for the 2016 grants: risk-free rate of 1.61%, dividend yield of 0%, expected volatility factor of 219.29% and expected term of 3.25 years. The following weighted average assumptions were used for the 2015 grants: risk-free rate of 1.28%, dividend yield of 0%, expected volatility factor of 362.86% and expected term of 3.11 years.

The expected volatility was based on the historical volatility of the Company's stock. The expected term was based on the historical experience and based on Management estimate.

Compensation expenses recognized by the Company related to its stock-based employee compensation awards and warrants were \$631, \$924, and \$1,529 for the years ended December 31, 2017, 2016 and 2015, respectively.

The following table summarizes the allocation of the stock-based compensation and warrants charge

	Year ended December 31,		
	2017	2016	2015
	\$	\$	\$
Cost of revenues	217	266	264
Research and development expenses	155	207	311
Selling and marketing expenses	183	292	249
General and administrative expenses	76	159	705
	<u>631</u>	<u>924</u>	<u>1,529</u>

The options outstanding and exercisable as of December 31, 2017, have been separated into ranges of exercise prices as follows:

Range of exercise price	Options outstanding				Options Exercisable			
	Number outstanding as of December 31, 2017	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value	Number outstanding as of December 31, 2017	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value
\$			\$	\$			\$	\$
0.00-0.85	77,512	4.28	0.69	249,217	77,512	4.28	0.69	249,217
3.00-5.00	198,148	1.32	4.00	71,941	124,265	1.15	4.12	37,164
7.00-10.00	56,000	1.98	8.75	-	34,500	1.90	8.75	-
	<u>331,660</u>	<u>2.12</u>	<u>4.03</u>	<u>321,158</u>	<u>236,277</u>	<u>2.29</u>	<u>3.67</u>	<u>286,381</u>

The total intrinsic value of options exercised for the years ended December 31, 2017, 2016 and 2015 was \$65, \$16, and \$138, respectively, based on the Company's average stock price of \$3.27, \$3.77, and \$9.39, during the years ended on those dates, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 12: SHARE CAPITAL (Cont.)

A summary of the status of the Company's non-vested options granted to employees as of December 31, 2017 and changes during the year ended December 31, 2017 is presented below:

	Options	Weighted- average grant-date fair value
Non-vested as of December 31, 2016	230,179	6.17
Granted	-	-
Vested	(98,796)	5.44
Forfeited and canceled	(36,000)	6.38
Non-vested as of December 31, 2017	95,383	6.84

As of December 31, 2017, there was \$277 of unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the stock option plans, to be recognized over a weighted average period of approximately 0.66 years.

d. Private placements and warrants:

A summary of the Company's warrants activity to investors, to settle obligation to service providers, and related information is as follows:

	Year ended December 31,					
	2017		2016		2015	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
	-	\$	-	\$	-	\$
Outstanding at beginning of year	-	-	4,000	20.00	4,000	20.00
Granted	-	-	-	-	48,055	0.38
Exercised	-	-	-	-	(48,055)	0.38
Canceled and forfeited	-	-	(4,000)	20.00	-	-
Outstanding at end of year	-	-	-	-	4,000	20.00
Exercisable at end of year	-	-	-	-	4,000	20.00

e. Dividends:

No dividends were declared in the reported periods. In the event that cash dividends are declared in the future, such dividends will be paid in NIS. The Company does not intend to distribute cash dividends in the foreseeable future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 13: RELATED PARTY TRANSACTIONS

- a. On July 25, 2010, the board of directors of the Company elected Mrs. Tsviya Trabelsi to serve as Chairman. Mrs. Trabelsi is an officer at Sigma Wave Ltd., which is the controlling shareholder of the Company and is also the wife of the Company's chief executive officer. On May 12, 2011, the special general meeting approved a service agreement with Mrs. Trabelsi whereby she will receive a monthly fee equal to 60% of the Company's chief executive officer's monthly cost. In addition to the above consideration, the Company will bear all reasonable costs and expenses incurred by the Chairman in connection with her services and provide her with an automobile. On December 12, 2011, Mrs. Tsviya Trabelsi resigned effective immediately and the board of directors of the Company approved the appointment of Mr. Arie Trabelsi as its new Chairman, effective December 12, 2011. On December 27, 2012, the company's shareholders at a general meeting of shareholders approved the reappointment of Mrs. Trabelsi as Chairman. On May 9, 2013, the general meeting of shareholders of the Company approved the same management services compensation for Mrs. Trabelsi as those approved in May 2011.
- b. Mr. Trabelsi has served as the chief executive officer of the Company since June 1, 2012. Mr. Trabelsi is the sole director of Sigma Wave, which is the controlling shareholder of the Company. On May 9, 2013, the general meeting of shareholders of the Company approved the payment of management fees to Mr. Trabelsi of \$10.6 per month plus social benefits and an annual bonus of the greater of 2% of the Company's annual net profit or 0.5% of annual revenues, but in no event greater than Mr. Trabelsi's annual salary.
- c. As of December 31, 2017 and 2016, the Company accrued \$61 and \$56, respectively as expenses arising from related party management services.
- d. On April 29, 2012, the board of directors approved the recording of a floating charge on all of the Company's assets in favor of the chairman of the board and the CEO, unlimited in amount, in order to secure personal guarantees granted by them in favor of the Company to a bank and in order to secure loans that are given by them from time to time to the Company. As of December 31, 2017, total loans were \$2,082. These loans bear no interest and are not attached to any price index, and also will not be repaid within 12 months from December 31, 2017. The chairman of the board and the CEO provided a guaranty to the bank in the amount of NIS 1 million (\$288 as of December 31, 2017)). In 2018, the Company received an additional line of credit of up to \$1.5 million from its related parties. In addition, the related parties committed not to demand repayment of its outstanding loan within the next 12 months in order to assist the Company in managing its cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 14: SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION

a. Summary information about segments:

ASC 280, Segment Reporting, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer.

As part of the Company decision to switch from one technology segment, the e-government, into 3 separate technologies segments or Strategic business units; e-Gov, IoT, and Cyber Security, the Company acquired during 2016, 4 different companies with various technologies and customers base which enrich and strengthen the capacities and offering of each of the 3 segments:

e-Gov: Through the Company proprietary e-Government platforms and innovative solutions for traditional and biometrics enrollment, personalization, issuance and border control services, the Company have helped governments and national agencies design and issue secured multi-identification, or Multi-ID, documents and robust digital identity solutions to their citizens, visitors and Lands.

IoT: The Company's IoT products and solutions reliably identify, track and monitor people or objects in real time, enabling the customers to detect unauthorized movement of people, vehicles and other monitored objects. The Company provides all-in-one field-proven IoT suite, accompanied with services specifically tailored to meet the requirements of an IoT solutions. The Company's proprietary IoT suite of hybrid hardware, connectivity and software components are the foundation of these solutions and services.

Cyber Security: The Company operates in the fields of cutting edge endpoint data protection guarding against corporate data loss and theft through content discovery and inspection, encryption methodologies, and comprehensive device and port control and cyber security services.

During 2016, the Company went through a restructuring and merger process, and decided to report the following transitional operation segments: Government, Connectivity and Cyber Security.

In 2017, the Company completed its merger optimization process and now reports the following segments:

(a) Cyber security, (b) IoT and (c) e-Gov.

As a result, all prior period information has been recast to reflect the new segment composition.

	Year ended December 31, 2017			
	Cyber Security	IoT	e-Gov	Total
Revenues	3,768	11,264	18,232	33,264
Operating Loss	(734)	(2,911)	(2,871)	(6,516)
Goodwill	1,075	2,229	3,722	7,026
Total property and Equipment, net	110	623	485	1,218
	Year ended December 31, 2016			
	Cyber Security	IoT	e-Gov	Total
Revenues	2,172	10,833	7,020	20,025
Operating Income (loss)	(590)	597	(11,606)	(11,599)
Goodwill	1,075	2,229	3,722	7,026
Total property and Equipment, net	127	727	784	1,638
	Year ended December 31, 2015			
	Cyber Security	IoT	e-Gov	Total

Revenues	591	345	27,404	28,340
Operating Income (loss)	89	(655)	2,059	1,493
Goodwill	966	-	3,722	4,688
Total property and Equipment, net	22	327	539	888

Following is a reconciliation of the operating income (loss) of the reportable segments to the data included in the statements of operations:

	Year ended December 31,		
	2017	2016	2015
Operating income (loss)			
Total operating income (loss) of reportable segments	(6,516)	(11,599)	1,493
Financial expenses, net	(538)	(303)	(277)
Income (loss) before income taxes	<u>(7,054)</u>	<u>(11,902)</u>	<u>1,216</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 14: SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

b. Summary information about geographic areas:

The following is a summary of revenues from external customers of the continued operations within geographic areas and data regarding property and equipment, net:

	Year ended December 31,					
	2017		2016		2015	
	Total Revenues	Property and Equipment, net	Total revenues	Property and Equipment, net	Total revenues	Property and Equipment, net
	\$	\$	\$	\$	\$	\$
Africa	9,713	-	5,681	-	25,204	-
European countries	2,482	-	1,211	-	1,325	-
South America	8,778	-	1,803	-	1,420	-
United States	9,921	107	9,888	122	121	14
Israel	1,309	1,111	724	1,516	161	874
APAC	1,034	-	675	-	-	-
Other	27	-	43	-	109	-
	<u>33,264</u>	<u>1,218</u>	<u>20,025</u>	<u>1,638</u>	<u>28,340</u>	<u>888</u>

- Revenues were attributed to countries based on the customer's location.
- Property and equipment were classified based on geographic areas in which such property and equipment items are held.

c. Summary of revenues from external customers based on products and services:

	Year ended December 31,		
	2017	2016	2015
	\$	\$	\$
Raw materials and equipment	6,296	3,353	9,427
Electronic monitoring	5,535	4,437	-
Treatment programs	3,906	4,530	-
Maintenance, royalties and project management	17,527	7,705	18,913
	<u>33,264</u>	<u>20,025</u>	<u>28,340</u>

d. Major customer data as a percentage of total sales:

	Year ended December 31,		
	2017	2016	2015
Customer A	4%	6%	17%
Customer B	11%	5%	30%
Customer C	10%	13%	30%
Customer D	-	-	3%
Customer E	-	-	9%
Customer F	4%	8%	5%
Customer G	<u>21%</u>	<u>-</u>	<u>-</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

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

NOTE 15: OTHER EXPENSE (INCOME), NET

	Year ended December 31,		
	2017	2016	2015
	\$	\$	\$
Doubtful debt provision	327	438	1,576
Change in liability for future earn-out	(593)	-	-
Recovery of pre-acquisition receivable	(1,384)	-	-
Other	(371)	275	598
Total other expense (income), net	(2,021)	713	2,174

Bad debt

The following is a summary of the accounts receivables allowance for doubtful accounts for the years ended December 31:

	Year ended December 31,		
	2017	2016	2015
	\$	\$	\$
Balance at beginning of period	2,014	1,576	4,390
Provision during the period	327	1,238	1,576
Doubtful account classified as bad debt	-	-	(4,390)
Reversal of allowance for doubtful account	-	(800)	-
Balance at end of period	2,341	2,014	1,576

NOTE 16: FINANCIAL (EXPENSES) INCOME, NET

	2017	2016	2015
	\$	\$	\$
Financial expenses:			
Interest, bank charges and fees	(211)	(219)	(211)
Exchange differences, net	(327)	-	(66)
Unwind of discount earn out liability	-	(118)	-
Total financial expenses	(538)	(337)	(277)
Financial income:			
Exchange differences, net	-	34	-
Total financial income	-	34	-
Total financial expenses, net	(538)	(303)	(277)

SIGNATURES

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

SUPERCOM LTD.

By: /s/ Arie Trabelsi

Name: Arie Trabelsi

Title: Chief Executive Officer

Dated: May 21, 2018

LIST OF SUPERCOM LTD's SUBSIDIARIES

The following is a list of the Company's active subsidiaries as at December 31, 2017:

Name of active Subsidiary	Jurisdiction of Organization	Percent Owned
S.B.C. Aviation Ltd.	Israel	100%
SuperCom Inc.	United States	100%
Vuance Inc.	United States	100%
SuperCom Slovakia A.S.	Slovakia	66%
Prevision Ltd.	Israel	100%
Safend Ltd.	Israel	100%
Leaders in Community Alternatives, Inc.	United States	100%
Alvarion Technologies Ltd	Israel	100%

CERTIFICATION OF CHIEF EXECUTIVE OFFICER**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.**

I, Arie Trabelsi, certify that:

1. I have reviewed this annual report on Form 20-F of SuperCom Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 21, 2018

/s/ Arie Trabelsi

Arie Trabelsi*

Chief Executive Officer and acting Chief Financial officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SuperCom Ltd. (the “Company”) on Form 20-F for the period ending December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Arie Trabelsi, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Arie Trabelsi

Arie Trabelsi*

Chief Executive Officer and acting Chief Financial officer

May 21, 2018

* The originally executed copy of this Certification will be maintained at the Company’s offices and will be made available for inspection upon request.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-121231 and 333-175785 on Form S-8, dated May 21, 2018, relating to the consolidated financial statements of SuperCom Ltd ("the Company"), appearing in this Annual Report on Form 20-F of the Company.

Tel-Aviv, Israel
May 21, 2018

/s/ Brightman Almagor Zohar & Co.
Certified Public Accountants (Isr.)
Member of Deloitte Touche Tohmatsu Limited



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-121231 and 333-175785) of SuperCom Ltd. of our report dated May 21, 2018 relating to the financial statements, which appears in this Form 20-F.

Tel-Aviv, Israel
May 21, 2018

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

*Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,
P.O Box 50005 Tel-Aviv 6150001 Telephone: +972 -3- 7954555, Fax: +972 -3- 7954556, www.pwc.com/il*



Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Sir or Madam:

Our firm was engaged as principal accountants to audit the consolidated financial statements of SuperCom Ltd. (the "Registrant") until the fiscal year ended December 31, 2016. We have read the statements set forth in Item 16F of the annual report on Form 20-F of the Registrant for the year ended December 31, 2017, and are in agreement with the statements made by the Registrant contained therein as it pertains to our firm.

We have no basis to agree or disagree with any other statements of the Registrant contained in Item 16F.

Very truly yours,

/s/ **Brightman Almagor Zohar & Co.**
A Member of Deloitte Touche Tohmatsu

Tel Aviv, Israel
May 21, 2018
