SUPERCOM LTD

FORM 20-F

(Annual and Transition Report (foreign private issuer))

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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, 2012

OR

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

OR

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

Commission file number 000-50790

SUPERCOM LTD

(Formerly VUANCE LTD.)
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's Name into English)

Israel
(Jurisdiction of incorporation or organization)

Nolton House, 14 Shenkar Street, P.O.B 12190, Hertzliya Pituach 46725, Israel
(Address of principal executive offices)

Taly Gudovich, CRO
Supercom Ltd.
Nolton House, 14 Shenkar Street,
P.O.B 12190, Hertzliya Pituach 46725, Israel
, +972-9-8890850 (phone); TALY@SUPERCOM.COM
(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.

None

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

Ordinary Shares, par value NIS 0.0588235 per share

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: **36,769,757 Ordinary Shares, nominal value NIS 0.0588235 per share** .

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

☐ Yes ☒ No

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

☐ Yes ☒ No

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 periods that the registrant was required to file such reports), and (2) has been subject to such reporting 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

U.S. GAAP ☒

International Financial Reporting Standards as issued by 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 ☒

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F ("Annual Report") contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 that are not historical facts but rather reflect our present expectations concerning future results and events. Words such as "anticipate," "estimate," "expects," "may," "projects," "intends," "plans," "believes," "would," "could" and words and terms of similar substance used in connection with any discussion of future operating or financial performance may identify forward-looking statements. These forward looking statements include, but are not limited to, statements regarding: (i) our belief about our competitive position in the tracking, asset management and monitoring, active radio frequency identification ("RFID"), e-ID, and our ability to become a key technological player in such markets; (ii) our belief about the commercial possibilities for our products in such markets; (iii) our expectation to be able to leverage our current products and technologies for the development of new applications and penetration to additional markets; (iv) our expectation to be able to continue to participate in the government market; (v) our belief about our ability to leverage our public sector experience into the commercial sector; (vi) our belief regarding the effects of competitive pricing on our margins, sales and market share; (vii) our expectations regarding the effects of the legal proceedings we are involved in on our sales and operating performance; (viii) our belief regarding the fluctuations of our operating results, including our belief about the effects of inflation and the fluctuation of the NIS/dollar exchange rate on our operating results; (ix) our expectations about our future revenues (or absence of revenues); (x) our expectations about the effects of seasonality on our revenues and operating results; (xi) our expectations regarding development and introduction of future products; (xii) our expectations regarding revenues from our existing customer contracts and purchase orders, including, without limitation, the value of our agreement for our end-to-end system for a national multi-ID issuing and control system with the government of a European country and our expectations for increased revenues from sales of additional technology and raw materials to such government; (xiii) our expectations regarding the success of our active RFID and electronics monitoring technology; (xiv) our expectations regarding the effectiveness of our marketing programs and generation of business from those programs, including our ability to continue to sell products through strategic alliances and our belief about the role customer service plays in our sales and marketing programs; (xv) our anticipation that sales to a relatively small number of customers will continue to account for a significant portion of our net sales; and (xvi) the anticipated timing of our product introductions. Forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those stated in such statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below under the captions "Risk Factors" in Item 3.D and "Operating and Financial Review and Prospects" in Item 5 and elsewhere in this Annual Report, as well as in our reports on Form 6-K submitted to the Securities and Exchange Commission, or the SEC. We are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section, and you are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this Annual Report.

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.

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, 2012 was NIS 3.7330 per $1.00.

Note: *Unless otherwise indicated herein, the prices and quantities of our ordinary shares provided in this Annual Report reflect the 1 to 5.88235 share consolidation (reverse share split) that we completed on April 29, 2007 and which became effective for trading purposes as of May 14, 2007.*

PART I

ITEM 1. ***Identity of Directors, Senior Management and Advisers.***

Not applicable.

ITEM 2. ***Offer Statistics and Expected Timetables.***

Not applicable.

ITEM 3. ***Key Information.***

A. Selected Financial Data

The following selected consolidated financial data as of December 31, 2012, 2011, 2010, 2009 and 2008 and for the years then ended have been derived from our audited consolidated financial statements. These financial statements have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and audited by Deloitte Brightman Almagor Zohar(a member of Deloitte international), for the year 2012 and Fahn Kanne & Co (member of Grant Thornton International) for the years 2008-2011. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5, "Operating and Financial Review and Prospects" and the consolidated financial statements and notes thereto and other financial information included elsewhere in this Annual Report. Historical results are not necessarily indicative of future results.

(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE DATA)	2012	2011	2010	2009(*)	2008(*)
SUMMARY OF STATEMENT OF OPERATIONS:					
Revenues	8 , 940	7,922	7,389	9,304	18,112
Cost of Revenues	1,619	3,306	2,057	3,365	6,945
Gross Profit	7,321	4,616	5,332	5,939	11,167
Operating Expenses:					
Research and Development	313	462	386	898	1,738
Selling and Marketing	3,060	3,505	4,405	5,131	9,905
General and Administrative	857	732	1,985	1,648	2,611
Other (income) expenses	1,085	(137)	(396)	130	8
Total Operating Expenses	5,315	4,562	6,380	7,807	14,262
Operating (Loss) Income	2,006	54	(1,048)	(1,868)	(3,095)
Financial (Expenses) Income, Net	1,805	990	(678)	(620)	(3,087)
Income (Loss) before Income Tax	3,811	1,044	(1,726)	(2,488)	(6,182)
Income Tax	1,006	(25)	(50)	(71)	(137)
Net Income (Loss) from continuing operations	4,817	1,019	(1,776)	(2,559)	(6,319)
Loss from discontinued operations	-	-	(189)	(2,526)	(6,039)
Net income (loss)	$ 4,817	$ 1,019	$ (1,965)	$ (5,085)	$ (12,358)
PER SHARE DATA:					
Basic earnings (loss) from continuing operations	$ 0.18	$ (0.29)	$ 0.11	$ (0.46)	$ (1.22)
Diluted earnings (loss) from continuing operations	$ 0.13	$ 0.09	$ (0.29)	$ (0.46)	$ (1.22)
Basic and Diluted loss from discontinued operations	-	-	$ (0.03)	$ (0.46)	$ (1.17)
Basic earnings (loss) per share	$ 0.18	$ 0.11	$ (0.32)	$ (0.92)	$ (2.39)
Diluted earnings (loss) per share	$ 0.13	$ 0.09	$ (0.32)	$ (0.92)	$ (2.39)
SUMMARY OF BALANCE SHEET DATA:					
Cash and Cash Equivalents	225	215	197	656	812
Marketable debt securities	--	--	--	--	--
Trade receivables (net of allowance for doubtful accounts of $ 1,726 and $ 134 as of December 31, 2012 and 2011, respectively)	1,598	1,542	752	857	840
Inventories, net	280	269	197	82	1,307
Total Current Assets	2,930	2,131	1,664	4,236	6,443
TOTAL ASSETS	3,743	2,455	2,008	4,682	8,935
Total Current Liabilities	2,796	7,829	4,500	6,332	10,424
Accrued Severance Pay	236	227	254	304	378
SHAREHOLDERS' EQUITY (DEFICIT)	711	(5,601)	(7,871)	(6,271)	(1,867)

(*) Due to the sale of certain business activities in January 2010, as described in Item 4 below, those business activities are presented as discontinued operations in accordance with U.S. GAAP.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the following risks together with the other information in this Annual Report in evaluating our business, financial condition and prospects. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we consider immaterial may also impair our business operations, financial results and prospects. If any of the following risks actually occur, our business, financial results and prospects could be harmed. In that case, the trading price of our ordinary shares could decline. You should also refer to the other information set forth in this Annual Report, including our financial statements and related notes and the Section captioned "Note Regarding Forward-Looking Statements."

Risks Related to Our Business

We require capital to fund our growth and may need to reduce the scope of our operations if it is not available

In the past, we have partially funded our operations through the issuance of equity securities and convertible bonds to investors and may not be able to generate a positive cash flow from operations in the future. Continuation of our current operations after utilizing our current cash reserves may be dependent upon the generation of additional financial resources either through the issuance of additional equity or debt securities or other sources of financing, generating cash flow from operations. Any additional financings will likely cause substantial dilution to existing shareholders. 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. Even if we raise such additional capital, we may be required to reduce the scope of our operations and may need to implement certain operational changes in order to decrease our expenditure level. Our need for additional capital to finance our operations and growth will be greater should, among other things, our revenue or expense estimates prove to be incorrect.

The current economic and financial crisis may have a material adverse effect on our results.

The crisis of the financial and credit markets worldwide in the second half of 2008 has led to an economic slowdown worldwide, and the outlook for 2013 is uncertain. A continuation or worsening of unfavorable economic conditions, including the on-going credit and capital markets disruptions, could have an adverse impact on our business, operating results or financial condition in a number of ways. We may experience declines in revenues, profitability and cash flows as a result of reduced orders, delays in receiving orders or in the completion of projects, delays or defaults in payment or other factors caused by the economic problems of our customers and prospective customers. We may experience supply chain delays, disruptions or other problems associated with financial constraints faced by our suppliers and subcontractors. In addition, changes and volatility in the equity, credit and foreign exchange markets and in the competitive landscape make it increasingly difficult for us to predict our revenues and earnings into the future.

Adverse capital and credit market conditions may impact our ability to access liquidity and capital .

The capital and credit markets have been experiencing extreme volatility and disruption in recent years. We need liquidity in our day-to-day business activities to pay our operating expenses.

We may be required to raise financing to fund our operations. The availability of financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. If our internal sources of liquidity prove to be insufficient, there is a risk that external funding sources might not be available or available at unfavorable terms.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital required to operate our business. Such market conditions may limit our ability to raise additional capital to support business growth.

This would have the potential to decrease both our ability to attain profitability and our financial flexibility. Our results of operations, financial condition, cash flows and regulatory capital position could be materially adversely affected by disruptions in the financial markets.

Depending on the effect on our business of the current economic and financial crisis, we may face problems in managing any decline in our business .

If the current economic and financial crisis continues to have an adverse impact on the demand for our products or their profitability, we may face difficulties in managing a decline in our business. Our success in handling a contraction of our business will depend on our ability, among other things, to:

- develop efficient forecast methods for evaluating the prospective quantity of products that will be ordered by our customers;
- control inventories of components ordered by our contract manufacturers required to meet actual demand, including but not limited to handling the effects of excess inventories accumulated by such manufacturers;
- reduce the costs of manufacturing our products;
- continue to collect receivables from our customers in full and in a timely manner; and
- properly balance the size and capabilities of our workforce.

If we are unable to manage a decline in business, we could fail to manage the costs associated with all aspects of our business, which would have a material adverse effect on our business and results of operations.

We derive a substantial portion of our revenue from one customer, and the reduction of sales to this customer could adversely impact our operating results by causing a drop in revenues.

We depend on one customer for a substantial portion of our revenue. In 2012 and 2011, we derived 64% and 95%, respectively, of our consolidated net revenue from one customer. A substantial reduction in sales to, or loss of, our significant customer would adversely affect our business unless we were able to replace the revenue we received from the customer, which replacement we may not be able to find. Specifically, changes that may negatively impact the political or economic stability and environment of the European country from which we derive most of our consolidated net revenues, could adversely affect our business and future operations in such country.

As a result of this concentration of revenue from a limited number of customers and our increased reliance on our e-ID, electronic monitoring PURERF tm Suite and products, resulting from our sale of certain assets and liabilities related to the electronic access control market and our Government Services Division including our CSMS and RAPTOR suites, our revenue has experienced wide fluctuations, and we expect our revenue to continue to experience wide fluctuations in the future. Part of our sales is not recurring sales; therefore, quarterly and annual sales levels could fluctuate. Sales in any period may not be indicative of sales in future periods.

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

Most of our products integrate third-party technology that we license and/or raw materials and components that we purchase or otherwise obtain the right to use, including: operating systems, microchips, security and cryptography technology for card operating systems, which prevents unauthorized parties from tampering with our cards, and dual interface technology, which enables cards to operate in both contact and contactless mode. 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 and raw materials 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, and we may 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.

We usually do not have minimum supply commitments from our vendors for our raw materials or components and generally purchase raw materials and components on a purchase order basis. Although we generally use standard raw materials and components for our systems, some of the key raw materials or components are available only from from limited sources. Many of our products are only available from limited sources. Even where multiple sources are available, we typically obtain components and raw materials from only one vendor to ensure high quality, prompt delivery and low cost. If one of our suppliers were 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 or other materials to be supplied by our vendors could lead to unanticipated costs to repair or replace these parts or materials. Even though there are multiple suppliers, we purchase some of our components from single suppliers to take advantage of volume discounts, which presents a risk that the components may not be available in the future on commercially reasonable terms, or at all. Although we believe that there are additional suppliers for the equipment and supplies that we require, we may not be able to make such alternative arrangements promptly. If one of our suppliers were 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 pursue acquisitions or investments in complementary technologies and businesses. We may be unsuccessful in integrating the acquired businesses and/or complementary technologies and businesses, the acquisition of which we may pursue in the future, and such integrations could divert our resources and adversely affect our financial results.

Other than Intelli-Site and SHC, we have not made, in the last five (5) years any other acquisitions. Integrating newly acquired business or technologies into our business could divert our management's attention from other business concerns and could be expensive and time-consuming. Acquisitions could expose our business to unforeseen liabilities or risks associated with entering new markets. Consequently, we might not be successful in integrating the acquired businesses, technologies or products into our existing business and products, and might not achieve anticipated revenue or cost benefits. In the future, we may pursue acquisitions of, or investments in, complementary technologies and businesses. We may be unable to identify suitable acquisition candidates in the future or to make these acquisitions on a commercially reasonable basis, or at all. Such acquisitions present a number of potential risks and challenges that could, if not met, disrupt our business operations, increase our operating costs and reduce the value to us of the acquired company. For example, if we identify an acquisition candidate, we may not be able to successfully negotiate or finance the acquisition on favorable terms. In addition, future acquisitions could result in customer dissatisfaction and performance problems with an acquired company, which could adversely affect our business.

Costs arising from our future acquisitions and dispositions could adversely affect our financial condition.

Any acquisition or disposition that we make could result in the use of our cash or equity securities, incurrence and assumption of debt, contingent liabilities, significant acquisition-related expenses, amortization of certain identifiable intangible assets, and research and development write-offs, and could require us to record goodwill and other intangible assets that could result in future impairments that could harm our financial results. We will likely incur significant transaction costs pursuing acquisitions or dispositions, including acquisitions or dispositions that may not be consummated. We may not be able to generate sufficient revenues from our acquisitions or dispositions to offset their costs, which could materially adversely affect our financial condition. The recognition of impairments of tangible, intangible and financial assets results in a non-cash charge on the income statement, which could adversely affect our results of operations

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

We market and sell some of our products using a network of distributors covering the United States and parts of Europe. We establish relationships with distributors and resellers through agreements that provide prices, discounts and other material terms and conditions under which the reseller is eligible to purchase our systems and products for resale. These agreements generally do not grant exclusivity to the distributors and resellers and, as a general matter, are not long-term contracts, do not have commitments for minimum sales, and could be terminated by the distributor. We do not have agreements with all of our distributors. We are currently engaged in discussions with other potential distributors, sales agents, and value-added resellers. Such arrangements may never be finalized and, if finalized, such arrangements may not increase our revenues or enable us to achieve profitability.

Our ability to terminate a distributor who is not performing satisfactorily may be limited. Inadequate performance by a distributor could adversely affect our ability to develop markets in the regions for which the distributor is responsible and could result in substantially greater expenditures by us in order to develop such markets. Our operating results will be highly dependent upon: (i) our ability to maintain our existing 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 distributors, sales agents, and value-added resellers to successfully market our products. A failure to achieve these objectives could result in lower revenues.

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, distributors 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.

We have no patents or patent applications, 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 and/or could reduce our ability to compete. In addition, these efforts to protect our intellectual property rights could require us to incur substantial costs even when our efforts are successful.

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.

We may face intellectual property 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 with Secu-Systems Ltd., as described in Item 8 below under the caption “Legal Proceedings,” we have not been subject to intellectual property 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, but no lawsuits have been filed in respect of such claims.

Litigation may be necessary in the future to enforce any patents we may obtain and/or any other intellectual property 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 intellectual property 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, as well as to OTI, 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 may be plaintiff or defendant in various legal actions from time to time.

From time to time, we are the defendant or plaintiff in various legal actions, which arise in the normal course of business. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required for these contingencies, if any, which would be charged to earnings, is made after careful and considered analysis of each individual action with our legal advisors. The required reserves may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy. A change in the required reserves would affect our earnings in the period the change is made. For more information on the above and our ongoing litigation see under the caption “Legal Proceedings” in Item 8.

A security breach of our internal systems or those of our customers could harm our business by adversely affecting the market's perception of our products and services, thereby causing our revenues to decline.

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 of 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.

We may be exposed to significant liability for actual or perceived failure to provide required products or services, which could damage our reputation and adversely affect our business by causing our revenues to decline and our costs to rise.

Products as complex as those we offer may contain undetected errors or may fail when first introduced or when new versions are released. Despite our product testing efforts and testing by current and potential customers, it is possible that errors will be found in new products or enhancements after commencement of commercial shipments. The occurrence of product defects or errors could result in adverse publicity, delay in product introduction, diversion of resources to remedy defects, loss of or a delay in market acceptance, or claims by customers against us, or could cause us to incur additional costs or lose revenues, any of which could adversely affect our business.

Our failure or inability to meet a customer's expectations in the performance of our services, or to do so in the time frame required by the customer, regardless of our responsibility for the failure, could result in a claim for substantial damages against us by the customer, discourage other customers from engaging us for these services, and damage our business reputation. We carry product liability insurance, but existing coverage may not be adequate to cover potential claims.

We do not maintain insurance coverage for professional liability, for theft by employees, nor do we maintain specific insurance coverage for any interruptions in our business operations. The successful assertion of one or more large claims against us that exceed available insurance coverage, or changes in our insurance policies, including premium increases or the imposition of large deductibles or co-insurance requirements, could adversely affect our business by significantly increasing our costs.

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 have been generated in jurisdictions other than 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; and
- currency issues.

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 obtain sales at all or 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 have sought in the past and may 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 associated with such types of contracts.

Most contracts with governments or with state or local agencies or municipalities ("Governmental Contracts") 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.

In addition, Governmental Contracts subject us to 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. 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.

Governments, may be in a position to obtain greater rights with respect to our intellectual property than we would grant to other entities. Governmental agencies also have the power, based on financial difficulties or investigations of their contractors, to deem contractors unsuitable for new contract awards. Because we will engage in the government contracting business, we will be subject to audits, and may be subject to investigation, by governmental entities. 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 the fines and penalties and prohibiting us from earning revenues from Governmental Contracts during the suspension period.

Furthermore, governmental programs can experience delays or cancellation of funding, which can be unpredictable; this may make it difficult to forecast our revenues on a quarter-by-quarter basis.

Some of the markets that we target for a substantial part of our future growth are in very early stages of development, and if they do not develop, our business may not grow as much or as profitably as we hope.

Some of the markets that we target for our future growth are small and need to develop if we are to achieve our growth objectives. If some or all of these markets do not develop, or if they develop more slowly than we anticipate, then we will not grow as quickly or as profitably as we hope. In February 2006, we announced the introduction of a new technology and solution for actively tracking people, objects and assets, Active RFID Tracking technologies and products ("PureRF"). This technology was developed in response to growing market demand for asset/ people tracking and monitoring solutions in the homeland security and commercial markets.

Although we believe the government market is critical to our success in the short term, we believe that both the government and commercial markets will be critical to our long-term success. The development of these markets will depend on many factors that are beyond our control, including the following factors (and other factors discussed elsewhere in the Risk Factors): (i) there can be no assurances that we will be able to continue to apply our expertise and solutions developed for the government market to the commercial market; (ii) the ability of the commercial markets to adopt and implement the active RFID solutions; and (iii) the ability of our management to successfully market our technologies to such government and/or commercial entities.

The success of our active RFID & mobile based business lines is dependent on several factors.

The success of our active RFID & mobile based business lines is dependent on several factors, including proper new product definitions, product costs, timely completion and introduction of the new product, differentiation of the new product from those of our competitors, and market acceptance of the product, as well as our existing and potential customers' varying budgets for capital expenditures and new product introduction. We have addressed the need to develop new products through our internal development efforts. In light of the OTI transaction and the sale of certain assets and liabilities related to our electronic access control market and our Government Services Division including our CSMS and RAPTOR suites, the active RFID & mobile based business lines is anticipated to be our main revenue growth generator in the future. There can be no assurance that we will successfully identify new product opportunities and/or 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.

If our technology and solutions ceases to be adopted and used by government and commercial organizations, we may lose some of our existing customers and increase our losses.

Our ability to grow depends significantly on whether governmental and commercial organizations adopt our technology and solutions as part of their new standards and whether we will be 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 RFID & mobile based technology must be adapted to and adopted in a variety of areas, including, but not limited to:

- Public safety and Emergency;
- Community Monitoring and Law Enforcement
- Animal monitoring and management;
- Health Care and Home Care; and
- access control

Any or all of these areas may not adopt our RFID & mobile based technology.

We cannot accurately predict the future growth rate, if any, or the ultimate size of the RFID & mobile based 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 RFID & mobile based solutions;
- public perception of the intrusiveness of these solutions and the manner in which organizations use the information collected;
- public perception of the confidentiality of private information;
- customer satisfaction with our products and services; and
- marketing efforts and publicity for our products and services.

Even if our RFID & mobile based 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.

We need to develop our position as a provider of RFID & Mobile based solutions and services to earn high margins from our technology, and if we are unable to develop such position, our business will not be as profitable as we hope, if at all.

The increasing sophistication of our RFID & Mobile based technology places a premium on providing innovative software systems and services to customers, in addition to manufacturing and supplying RFID technology. While we have had some early 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 RFID & Mobile based technology lies in the development of software and applications that will permit the use of RFID & Mobile based technology in the new selected new markets. In contrast, the margins involved in manufacturing and selling RFID & Mobile based technology can be relatively small, and may not be sufficient to permit us to earn an attractive return on our development investments.

The time from our initial contact with a customer to a sale may be long and subject to delays, which could result in the postponement of our receipt of revenues from one accounting period to the next, increasing the variability of our results of operations and causing significant fluctuations in our revenue from quarter to quarter.

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 nine to 24 months and the typical sales cycle for our commercial customers has ranged from one to six 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.

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 and 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 distributors 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;
- the inability to successfully manufacture in volume, and reduce the price of, certain of our products; and

The lead time for ordering parts for and manufacturing our products can be significantly long and therefore based on forecasted demands rather than actual orders received.

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.

Our markets are highly competitive and competition could harm our ability to sell products and services and could reduce our market share.

The market for RFID & Mobile based enabled products is intensely competitive. We expect competition to increase as the industry grows and as RFID & Mobile technology begins to converge with the access control and information technology industry. 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 active RFID& Mobile enabled solutions market expands, we expect additional competitors to enter the market.

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 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 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 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.

We rely on the services of certain executive officers and key personnel, the loss of which 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; if we are not successful in such hiring and retention, 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.

Our planned growth will place significant strain on our financial and managerial resources and may negatively affect our results of operations and ability to grow more.

Our ability to manage our growth effectively will require us:

- to continue to improve our operations, financial and management controls, reporting systems and procedures;
- to train, motivate and manage our employees; and
- as required, to install new management information systems.

Our existing management and any new members of management may not be able to augment or improve existing systems and controls, or implement new systems and controls, in response to anticipated future growth. If we are successful in achieving our growth plans, such growth is likely to place a significant burden on the operating and financial systems, resulting in increased responsibility for our senior management and other personnel.

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 (the "FCC") limit the radio frequency used by and level of power emitting from electronic equipment. Our readers, controllers and other radio frequency technology scanning equipment are required to comply with these FCC rules which may require certification, verification or registration of the equipment with the FCC. Certification and verification of new equipment requires testing to ensure the equipment's compliance with the FCC's rules. The equipment must be labeled according to the FCC's rules to show compliance with these rules. Testing, processing of the FCC'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. market. Electronic equipment permitted or authorized to be used by us through FCC certification or verification procedures must not cause harmful interference to licensed FCC users, and may be subject to radio frequency interference from licensed FCC users. Selling, leasing or importing non-compliant equipment is considered a violation of FCC rules and federal law, and violators may be subject to an enforcement action by the FCC. Any failure to comply with the applicable rules and regulations of the FCC could have a material adverse effect on our business, operating results and financial condition by increasing our compliance costs and/or limiting our sales in the United States.

We are exposed to special risks 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 control 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 it in their countries into U.S. dollars or other currencies, or to take those dollars or other currencies out of those countries.

Risks Related to our Location and Incorporation in Israel

Conditions in Israel affect our operations in Israel and may limit our ability to sell our products and services.

We are incorporated under Israeli law and we also operate offices located in Israel. Political, economic and military conditions in Israel may directly affect our operations and business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying from time to time in degree and intensity, has led to security and economic problems for Israel. In addition, recent civil unrest and political turbulence in various countries in the Middle East and Northern Africa have shaken the stability of those countries. This instability may lead to deterioration of the political and economic relationships that exist between the State of Israel and some of these countries. 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 the region, such as Hamas in Gaza and Hezbollah in Lebanon. These situations may potentially escalate in the future to more violent events which may affect Israel and us. Furthermore, several countries still restrict trade with Israeli companies and additional countries may impose such restrictions as a result of changes in the military and/or political conditions in Israel and/or the surrounding countries, which may limit our ability to make sales in, or purchase components from, those countries. Any future armed conflict, political instability, continued violence in the region or restrictions could have a material adverse effect on our business, operating results and financial condition.

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.

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 SuperCom Ltd. and its officers and directors and Israeli auditors or in asserting U.S. securities law claims in Israel.

Most of our officers and directors and our Israeli 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 Israeli 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 Israeli 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.

However, subject to time limitations, Israeli courts may enforce a U.S. judgment in a civil matter, if:

- adequate service of process has been effected and the defendant has had a reasonable opportunity to be heard;
- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;

- the judgment was rendered by a court of competent jurisdiction, in compliance with due process and the rules of private international law prevailing in Israel;

- the judgment was not obtained by fraudulent means and does not conflict with any other valid judgment in the same matter between the same parties;

- no action between the same parties in the same matter is pending in any Israeli court at the time the lawsuit is instituted in a U.S. court; and

- the U.S. courts are not prohibited from enforcing judgments of the Israeli courts.

Fluctuations in the exchange rate between the U.S. dollar and foreign currencies may affect our operating results.

We incur expenses for our operations in Israel in New Israeli Shekels ("NIS") and translate these amounts into U.S. dollars for purposes of reporting consolidated results. As a result, fluctuations in foreign currency exchange rates may adversely affect our expenses and results of operations, as well as the value of our assets and liabilities. Fluctuations may adversely affect the comparability of period-to-period results. In addition, we hold foreign currency balances, primarily NIS, which will create foreign exchange gains or losses, depending upon the relative values of the foreign currency, at the beginning and end of the reporting period, affecting our net income and earnings per share. We may use hedging techniques in the future (which we currently do not use), but there is no assurance that we will be able to eliminate the effects of currency fluctuations. Although the dollar depreciation in relation to the NIS during 2012 had not adversely affected our financial results, exchange rate fluctuations could have a material adverse impact on our operating results and stock price. (See also Item 5, "Impact of Inflation and Currency Fluctuations".)

We may not pay dividends in the near future and any return on investment may be limited to the value of our ordinary shares.

Under 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. In addition, a competent court may approve, as per a motion to be filed by a company in accordance with the Israeli Companies Law requirements, a payment which does not meet the profits test, provided that the court was convinced that there is no reasonable concern that such payment will prevent the company from satisfying its existing and foreseeable obligations as they become due. If we do not pay dividends, our ordinary shares may be less valuable because a return on your investment will only occur if our share price appreciates.

<u>Risks Pertaining to Ownership of Our Ordinary Shares</u>

The trading market for our ordinary shares has low liquidity, which could make it difficult for our shareholders to sell their shares at desired prices and amounts.

Our ordinary shares currently are traded on the OTC Electronic Quotation Service. Currently, we do not meet the initial listing conditions of the Nasdaq Stock Market. The market for shares quoted on the OTC is typically less liquid than that for shares listed on the Nasdaq Stock Market. This could make it more difficult for our shareholders to sell their shares at desired prices and amounts.

Our ordinary shares may become subject to the "penny stock" rules of the SEC which will make transactions in our ordinary shares cumbersome and may reduce the value of our shares.

Trading in our ordinary shares may become subject to the "penny stock" regulations adopted by the SEC. These regulations generally define a "penny stock" to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions, such as if the issuer of the security has net tangible assets in excess of $2,000,000. The market price of our ordinary shares is currently less than $5.00 per share and our net tangible assets as of December 31, 2012 were approximately $3,743,000. While we believe that our ordinary shares are currently exempt from the definition of penny stock, there is no assurance that they will continue to be exempt from such definition. If our ordinary shares become subject to the "penny stock" rules of the SEC, it will make transactions in our ordinary shares cumbersome and may reduce the value of our shares. This is because for any transaction involving a penny stock, unless exempt, Rule 15g-9 generally requires:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written statement from the investor prior to the transaction.

Disclosure also has to be made by the broker or dealer about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our ordinary shares and cause a decline in our market value if we were to become subject to the said "penny stock" rules.

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

Sigma Wave Ltd., or Sigma, is the beneficial owner of approximately 46% of our outstanding shares. See Item 6E for more information. Such ownership interest gives Sigma the ability to influence and direct our activities, subject to approvals that may be required for related-party transactions pursuant to Israeli law. Sigma will 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.

If persons engage in short sales of our ordinary shares, including sales of shares to be issued upon the exercise of our outstanding warrants, options and convertible bonds, the price of our ordinary shares may decline.

Selling short is a technique used by a shareholder to take advantage of an anticipated decline in the price of a security. In addition, holders of options, warrants and convertible bonds will sometimes sell short knowing they can, in effect, cover the sale through the exercise of an option, warrant or convertible bond, thus locking in a profit. A significant number of short sales or a large volume of other sales within a relatively short period of time can create downward pressure on the market price of a security. Further sales of ordinary shares issued upon exercise of our outstanding warrants, options or convertible bonds could cause even greater declines in the price of our ordinary shares due to the number of additional shares available in the market upon such exercise or conversion, which could encourage short sales that could further undermine the value of our ordinary shares. You could, therefore, experience a decline in the value of your investment as a result of short sales of our ordinary shares.

A change in tax laws of any country in which we operate could result in a higher tax expense or a higher effective tax rate on our worldwide earnings.

We conduct our operations in various countries throughout the world. Tax laws and regulations are highly complex and subject to interpretation. Consequently, we are subject to changing tax laws, treaties and regulations in and between countries in which we operate, including treaties between nations. Our income tax expense is based upon our interpretation of the tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, treaties or regulations, or in the interpretation thereof, or in the valuation of our deferred tax assets, which is beyond our control could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings.

A loss of a major tax dispute or a successful tax challenge to our operating structure, intercompany pricing policies or the taxable presence of our subsidiaries in certain countries could result in a higher tax rate on our worldwide earnings, which could result in a significant negative impact on our earnings and cash flows from operations.

Our income tax returns are subject to review and examination. We do not recognize the benefit of income tax positions we believe are more likely than not to be disallowed upon challenge by a tax authority. If any tax authority successfully challenges our operational structure or the taxable presence of our subsidiaries in certain countries; or if the terms of certain income tax treaties are interpreted in a manner that is adverse to our structure; or if we lose a material tax dispute in any country, our effective tax rate on our worldwide earnings could increase substantially and our earnings and cash flows from operations could be materially adversely affected.

While we believe that we are not currently a PFIC and do not anticipate becoming a PFIC, United States tax authorities could treat us as a "passive foreign investment company," which could have adverse United States federal income tax consequences to United States holders.

Generally, if for any taxable year, 75% or more of our gross income is passive income, or at least 50% of the value of our assets, averaged quarterly, are held for the production of, or produce, passive income, we will be characterized as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. A determination that we are a PFIC could cause our U.S. shareholders to suffer adverse tax consequences, including having gains realized on the sale of our shares taxed at ordinary income rates, rather than capital gains rates, and being subject to an interest charge on such gain. Similar rules apply to certain "excess distributions" made with respect to our ordinary shares. A determination that we are a PFIC could also have an adverse effect on the price and marketability of our shares. If we are a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning our ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. See "Item 10.E. Taxation - Passive Foreign Investment Company" below.

Being a foreign private issuer exempts us from certain SEC requirements.

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

- the rules under the Exchange Act requiring the filing with the SEC 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 U.S.

ITEM 4. *Information on the Company.*

A. *History and Development of the Company*

History of the Company

SuperCom Ltd. was incorporated in Israel, as a company limited by shares, on July 4, 1988, under the provisions of the then-current Israeli Companies Ordinance. We now operate under the Israeli Companies Law, which became effective on February 1, 2000, and the Israeli Companies Ordinance (New Version) 1983, as amended.

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 $6,600,000. 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.

We became a publicly-traded company on 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 under the symbol "SUP," which became "VUNC" after our corporate name change on May 14, 2007. 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 names change 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" and the trading of our shares on the OTC Bulletin Board ceased. On October 1, 2009 our shares were delisted from The NASDAQ Capital Market and beginning on the same date, our shares were quoted under the ticker symbol "VUNCF" on the OTC. On March 18 2013, following the change of our name to our original name SuperCom Ltd., our shares are quoted under the ticker symbol "SPCBF" on the OTC. **For more information and details on the history of the listing of our ordinary shares see under Item 9A "Offer and Listing Details".**

During the fourth quarter of 2006, we established a new wholly-owned subsidiary, S.B.C. Aviation Ltd., (incorporated in Israel) which began operations in 2007 and focused on executing information technology and security projects.

In 2006 we decided to sell our E-ID Division in order to focus on opportunities in the U.S. for our CSMS business, which we later sold in 2010, and current active RFID tracking businesses, and on December 31, 2006, we sold the E-ID Division to On Track Innovations Ltd., or OTI for 2,827,200 restricted ordinary shares of OTI (of which 212,040 shares were related to consultants, as part of the direct expenses of this transaction). As of December 31, 2008, we sold all the OTI shares received in the OTI transaction.

Simultaneously, we entered into a service and supply agreement with OTI under which (i) OTI agreed to act as our subcontractor and provide services, products and materials necessary to carry out and complete certain projects that were not transferred to OTI (the "Existing Projects"), and (ii) OTI granted us an irrevocable, worldwide, non-exclusive, non-assignable and non-transferable license to use in connection with our Existing Projects, certain intellectual property rights transferred to OTI as part of the OTI transaction, for the duration of such projects. The sale of our E-ID division and the services and supply agreement are collectively referred to herein as the "OTI transaction".

In November 2006, we raised $3,156,500 through the issuance of units consisting of convertible bonds, or the Convertible Bonds and warrants. Units valued at $2,500,000 were issued to Brevan Howard Master Fund Limited or "BH" and units valued at $656,500 were issued to Special Situation Funds (SSF). . **For more details on the terms of the Convertible Bonds and warrants see Item 5B "Liquidity and capital resources"**

On July 3, 2007, we entered, through our wholly-owned subsidiary, Vuance, Inc., into an agreement (the "SHC Purchase Agreement") to acquire all of the issued and outstanding stock capital of Security Holding Corp. ("SHC") from Homeland Security Capital Corporation (OTCBB: HOMS.OB ("HMSC")) and other minority shareholders (collectively, "Sellers") for approximately $4,335,000 in our ordinary shares and direct expenses of approximately $600,000 in our ordinary shares. The closing date of this transaction was August 28, 2007 ("SHC Closing Date"). SHC was a Delaware corporation engaged in the business of manufacturing and distributing RFID-enabled solutions, access control and security management systems. As consideration for the acquisition of the stock capital of SHC, 1,097,426 of our ordinary shares, which were subject to certain lock up mechanism, were issued to the Sellers. HMSC further agreed that at the SHC Closing Date it will grant an irrevocable power of attorney to our Chairman of the Board of Directors to exercise all voting rights related to its SuperCom shares until the sale or transfer of such SuperCom shares by HMSC to an unaffiliated third party in an arm's-length transaction. We guaranteed all of the obligations of Vuance Inc. under the SHC Purchase Agreement. During the fourth quarter of 2007, SHC and its subsidiaries were merged into Vuance Inc.

In September 2007, we announced that we had entered into a definitive agreement to acquire, through our U.S. subsidiary, Vuance Inc., the credentialing division of Disaster Management Solutions Inc., ("DMS") for approximately $100,000 in cash and up to $650,000 in royalties that will be paid upon sales of the advanced first responder credentialing system (named "RAPTOR") during the first twelve months following the acquisition (the closing was in August 2007). This acquisition complemented our former incident management solutions business and added the RAPTOR to our former CSMS business (both of which were sold in 2010).

On March 25, 2009 we and our subsidiary, Vuance Inc., completed the acquisition of certain of the assets and certain of the liabilities of Intelli-Site, pursuant to an asset purchase agreement dated March 6, 2009 with Intelli-Site and Integrated Security Systems, Inc ("ISSI"). On the date of closing, Vuance Inc. 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, Vuance Inc., our wholly-owned subsidiary, completed the sale to OLTIS Security Systems International, LLC ("OSSI") of certain of its assets (including certain accounts receivable and inventory) and certain of its liabilities (including certain accounts payable) related to our electronic access control market. OSSI paid Vuance Inc. $146,822 in cash. In addition, OSSI paid off a loan that Vuance Inc. took from Bridge Bank, National Association. We and Vuance Inc. no longer have any liabilities associated with such loan.

In January 2010, we and our subsidiary, Vuance Inc., completed the sale of certain of the assets and certain of the liabilities of Vuance Inc. related to our Government Services Division (the "Vuance CSMS Business"), pursuant to a certain asset purchase agreement between us, Vuance Inc., WidePoint Corporation ("WidePoint") and Advance Response Concepts Corporation. WidePoint paid Vuance Inc. $250,000. In addition, WidePoint agreed to pay Vuance, Inc. a maximum earn-out of $1,500,000 over the course of calendar years 2010, 2011, and 2012, subject to the performance of certain financial requirements of the Vuance CSMS Business during each of those years.

On January 21, 2010, we incorporated a new wholly-owned subsidiary in the state of Delaware, PureRFid, Inc., to focus on marketing and sales for our active RFID products and solutions.

On March 22, 2010, we entered into a Subscription Agreement with a private investor, Mr. Yitzchak Babayov, pursuant to which at a March 23, 2010 closing we issued 1,538,461 ordinary shares of the Company (the "Transaction Shares") in consideration of a one-time cash payment in the amount of $200,000. Simultaneously with execution of the Subscription Agreement, we entered into a Warrant Agreement with Mr. Babayov, pursuant to which he received a warrant (the "Warrant") to purchase up to 553,846 of our ordinary shares for an exercise price of $0.15 per share.

On August 24, 2010, BH entered into an Absolute Assignment and Transfer of Bond and Warrant ("Assignment") with Sigma, our controlling shareholder. Pursuant to the Assignment, BH transferred to Sigma all of its rights in the BH Convertible Bonds and warrants. The Assignment had no impact on our assets or liabilities or our financial results.

In October 2010, we entered into an agreement for the sale of our entire equity interest in SuperCom Asia Pacific Ltd., for no consideration. As part of this sale, we assigned to the purchaser certain outstanding loans due to us by SuperCom Asia Pacific in the amount of $1.4 million.

At the annual general meeting of our shareholders held on September 12, 2010, our shareholders resolved to afford certain of our creditors and bond holders with the opportunity to convert the amounts owed to them into our ordinary shares, by means of a set off against the total outstanding debt to such creditor, at a price of $0.09 per ordinary share, subject to forgiveness of 60% of our total outstanding debt to such creditor ("Debt to Equity Conversion proposal"). Our board of directors was authorized to set all other terms of the Creditor Arrangement, including, inter alia, its timetable. In May 2011, our shareholders subsequently approved the inclusion of additional creditors to be included under the Creditor Arrangement. As of April 15, 2013, all creditors and bond holders, which were afforded with the opportunity to convert the amounts owed to them into our ordinary shares, had accepted our offer, and following the conversion of debt pursuant to the aforesaid offer, we allotted to those creditors a total of 29,552,011 of our ordinary shares, and 2,544,457 warrants (**For more information on the Debt to Equity Conversion see ITEM 18, NOTE 1.d-Extinguishment of Liabilities .).**

Recent Developments

At the beginning of 2012, we have decided to leverage on our experience in the e-ID market and to increase our position in the market; (i) by proposing other new technologies and solutions to our existing e-ID customer, (ii) by securing other e-ID projects and solutions by virtue of setting joint ventures with partners presenting worldwide presentence, and with companies holding complementary theologies and products.

During 2012 we have elected to broaden our activities into the following growing vertical markets: Electronic Monitoring for community and law enforcement, Real Time Healthcare and Homecare, and Livestock and Animal Management, using its RFID& Mobile PureRF suite of products.

Principal capital expenditures and divestitures

From January 1, 2012 to December 31, 2012, our capital expenditures totaled approximately $28 ,000, compared to $23,000 during 2011 and $4,000 during 2010.

See Item 4 - History of the Company for information on our sale of SuperCom Asia; the sale of certain assets and liabilities of Vuance Inc., related to our Government Services Division; and the sale by Vuance Inc., of certain of its assets and liabilities related to our electronic access control market .

Corporate information

Our headquarters are located in Israel at Nolton House 14 Shenkar Street, Hertzliya Pituach 4672514, Israel and our telephone number is +972-9-889-0800. Our Internet website address is http://www.SuperCom.com. The information contained on our corporate websites is not a part of this Annual Report.

Our agent for SEC matters in the U.S. only, is Ms. Brenda Gebhardt; the President of our subsidiary, PureRFid Inc., whose address is 10533 W. Manor Park Drive West Allis, WI 53227-1221; telephone number (414)301-9435.

B. Business Overview

From 1988 through 2006, our principal business was the design, development and marketing of advanced smart card and identification technologies and products for governmental and commercial customers in Europe, Asia and Africa. As described in Item 4.A ("History and Development of the Company") above, we decided to sell our E-ID Division in 2006 to focus on opportunities for our RFID and former CSMS businesses (sold in 2010).

Prior to January 2010, we offered three principal product suites to our customers: an Active RFID solution under the AAID brand (currently the PureRF Suite), Electronic Access Control Suite and Credentialing & Incident Management Suite. On January 28, 2010, our wholly-owned subsidiary, Vuance, Inc., completed the sale of certain of its assets and certain of its liabilities related to our electronic access control market, and on January 29, 2010, we and Vuance, Inc. completed the sale of certain of the assets and certain of the liabilities of Vuance, Inc. related to our Government Services Division including our Critical Situation Management System and Credentialing suites (see a description of this transaction under the caption "History of the Company" in Item 4.A).

Following the divestitures indicated above, from 2010 until 2012, we had been focusing our sales and marketing efforts on our core competencies, active RFID technology, our PureRF Suite and existing e-ID projects for an Eastern European Country.

During 2012, we had elected to expand our activities in the ID and e-ID market, and to design, develop and market, identification technologies and solutions to governments in Europe, Asia and Africa. Furthermore we have decided to broaden our activities into new markets, and to design, develop and market, Tracking and Monitoring Solutions to selected growing vertical markets; (i) Electronic Monitoring for community and law enforcement,(ii) Real Time Healthcare and Homecare, and (iii) Animal Management. Our solutions are empowered by our propriety RFID & Mobile PureRF suite of hybrid Hardware and software field proven components.

Our Strategy

In 2006, we sold our E-ID division in order to focus on opportunities mainly in the U.S. for our active RFID enabled solutions and CSMS businesses. The sale was completed on December 31, 2006 (See a description of this transaction in Item 4.A above). In August 2007, we completed the acquisition of SHC, a Delaware corporation engaged in the business of manufacturing and distributing RFID-enabled solutions, access control and security management systems. In January 2010, we completed the sale of certain of the assets acquired in the acquisition of SHC, including our Electronic Access Control Suite and our Credentialing & Incident Management Suite to focus on our core competencies, active RFID technology and solutions and e-ID project and solutions.

Our sales strategy is to:

- Develop strong strategic relationships with our business partners, including our systems integrators and distributors who introduce our solutions into their respective markets.

- Employ dedicated sales personnel to work closely with such business partners. Our sales personnel customize and adapt solutions that can then be installed and supported by these business partners.

- Expand our active RFID & Mobile activities into other geographical areas such as Europe, Israel and Far East.

- Leverage on our reputation, talented personnel, and project management capabilities in the e-ID market, to secure additional project and solutions In the growing e-ID and e-Government markets

- Leverage on our customer base, superior PureRF Hybrid suite of products, and IT management capabilities, to secure additional long terms contracts with governments and communities in the community and law enforcement markets

- Develop strong strategic relationships with business partners in the Healthcare and Home care markets, in order to introduce our superior solutions into their designated markets.

We have a multi-pronged approach to growth:

- Grow organically:

  1. Increase existing products' value (e.g., offer products which are smaller, better and cost effective);
  2. Develop and offer turnkey solutions for the selected vertical markets.
  3. Design and build superior applications using our existing products and technologies;
  4. Develop new products/solutions that meet our designated vertical markets' needs; and
  5. We are dedicating sales teams, coordinated through our U.S. and Israel corporate offices to sell more products/solutions directly or through our growing number of business partners.

- Increase our activities and sales in the e-ID and e-Gov growing markets, by establishing joint ventures with partners worldwide.

- Providing our customer in the e-ID markets, advanced technologies and solutions for additional e-ID and e-GOV needs.

- Make synergistic acquisitions. Continue to "leapfrog" growth through strategic acquisitions of companies with complementary products/solutions or market activities and experience in our designated vertical markets.

Enhancing Our Presence

We have broadened our marketing efforts for our e-ID and Electronic Tracking and Monitoring products and solutions and technology to the Global market.

In order to expand our presence, we may pursue acquisitions of or joint venture with one or more companies that have an existing customer base and proved revenues or that can otherwise offer us business synergies in USA, Europe and in the Far East

Identifying New Applications for Our Technologies

Our management and its external advisors had identified and designated three main vertical markets for our technologies in the security, law enforcement, healthcare and homecare, animal and livestock management. At a time when both government and the private sector are faced with unprecedented challenges to protect public safety, assets and personal privacy, we expect to extend our forward-looking technologies and solutions to the U.S. market and to other geographical regions.

Leveraging Knowledge and Experience

We believe that our exposure to the governmental market and experience in customizing solutions in our e-ID group will contribute to our ability to develop and market solutions in our wireless ID and monitoring vertical markets. We intend to leverage such knowledge and experience in order to respond to the needs of existing and potential customers in the security, law enforcement, healthcare, homecare, and other markets.

We also believe that our exposure to the governmental market and experience in solutions in our e-ID group will contribute to our ability to market additional solutions in the growing e-ID and e-Gov Markets. We intend to leverage such knowledge and experience in order to provide our existing customer with advanced technologies and solutions for additional e-ID and e-GOV needs, and in order to locate and secure additional projects in those markets .

Seeking Partnerships with Other Relevant Companies

To bolster our sales and marketing efforts:

- We may seek to partner with distributors that can offer us new relationships within the commercial sector as well as with government agencies and help us increase our geographic breadth and penetrate other selected vertical markets. In addition, we may seek to partner with system integrators experienced in handling large-scale security projects.
- We may seek to enter into strategic partnerships with companies that offer technologies that complement ours .
- We may seek to enter into joint ventures with other companies in order to secure and operate large projects in different countries, where we have no presence or local advantages.

Current Businesses

E-ID and e-Gov. (∑-ID)

From 1988 to 2006, our principal business was the design, development and marketing of advanced smart card and identification technologies and products for governmental and commercial customers in Europe, Asia and Africa. Our applications and solutions included e-passports, visas and other border entry documents, national identification and military, police and commercial access identification.

In our e-ID Division, we developed a fully automated production line for picture identification contactless smart cards, and offered our customers raw materials, maintenance and service agreements. We provided identification solutions and contactless smart card production equipment for governmental and commercial customers. As described above, as of the selling date of the certain e-ID division to OTI, OTI agreed to act as our subcontractor and provide services, products and materials necessary to carry out and complete certain projects that were not transferred to OTI. The customers and contracts of our e-ID Division in 2012, 2011 and 2010 included the following:

- A contract for a national multi - ID with a European country - In 2006, we entered into additional agreement with a European country which we estimate will generate approximately $50 million in revenues during the 10-year term of the project. Under the agreement we will provide the end-to-end system for a national multi-ID issuing and control system. There can be no assurance, however, that we will realize the full estimated value of this agreement.

  The project, which commenced during the third quarter of 2006, involves the implementation of an end-to-end national ID issuing and control system based on our system and includes the supply of digital enrollment and production equipment, software, maintenance and supply of secured raw material for the production of various national ID cards.

- Biometric Visa system to a European Government
- Automated Smart Card Production System to a European Government
- E-Passport with a European Country

At the beginning of 2012, we have decided to leverage on our experience in the e-ID market and have decided to increase our position in the market; (i) by proposing other new technologies and solutions to our existing e-ID customer, (ii) by securing other e-ID projects and solutions by virtue of setting joint ventures with partners presenting worldwide presentence, and with companies holding complementary theologies and products (iii) by retaining an outstanding group of market executives and experts, that poised us to propose and implement the best ID and e-ID solutions to the global markets.

Currently, our e-ID and e-Gov. division (∑-ID ™) offers complete (or partial) End-to-End, Turnkey and Comprehensive Solutions for various governmental ID programs, such as:

- o Population Registries & Censuses
- o National eID/IDs
- o Biometric Passports & Visas
- o Smart Driving/Vehicle Licenses
- o Biometric Border Control & Immigration
- o Voters & Elections
- o Internal Revenue & Social Security
- o e-Government services.

Our provided ∑-ID ™ systems comply with regional and international standards and enhance the usability by using smartcard applications; our system central servers include redundancy capability that provides disaster recovery or failover between sites, all solutions issue financial information and accountability, transaction auditing and management information reports, which eliminates the fraud related to people.

Our end-to-end solution covers all that is needed for a government to offer the particular service to the public: business process engineering, solution design and integration, hardware and software implementation, operator and technician training, and even financing. The solution covers all the workflows foreseen in the system, managerial and operational reports, and interfacing to the entire relevant environment for the government's business.

Security (SBC Aviation)

In 2007, we entered into an agreement (the "Airport Agreement") with an international airport in Europe ("EIA") to provide an integrated perimeter security system and a border control system. The establishment of the security and control system began during the third quarter of 2007. Under the Airport Agreement, once the system has been fully implemented and a transmission and acceptance report is signed by the EIA, we would enter a ten-year maintenance period. During the last few weeks our wholly-owned subsidiary, SBC Aviation Ltd., had negotiated an additional agreement with EIA, pursuant to which EIA confirmed the final acceptance and transmission of the system and committed to make a final payment for the system. Recent change of the management of EIA has led to a delay in the completion and execution of the agreement. We committed to provide final tuning to the system within three months after the said payment. Also, the parties agreed not to enter into the ten-year maintenance period. Further negotiation is undergoing with the new management of EIA, in order to secure the full payments as was agreed between the parties.

RFID

Our RFID Division is a RFID Management Solution Provider. With our PureRF™ Suite; RFID hardware-software hybrid asset-tracking management platform, streamlines critical resources (Asset and personal) Management scenarios through the introduction of the integrated platform of Movement Detection Solution (MDS) and a Real Time Locating System (RTLS): PureRF™ enabling to monitor, track, locate, secure and manage multiple objects/items, and is operated by a secure, proprietary knowledge-based, interactive, user-friendly interface.

Our RFID Division features a unique all-in-one best-practiced active RFID technology accompanied with advanced complementary services for the transportation, healthcare and homecare, Security and safety, Building and access automation SuperCom PureRF™ innovative solution assists companies in efficiently utilize ,otherwise ,wasted time and resources and is the ultimate solution for remote hands-off authentication, validation, identification, location and real-time monitoring of valuable resources ,personal and assets.

We listens carefully to its strategic business partners and works closely to develop integrated solutions that meet their exacting specifications and requirements, and we fully support our partners and customers from pre-sales meetings through installation and operation.

Products

We expect our PureRF Suite; a complete location position (LP) system solution based on active RFID tag technology, to offer commercial customers and governmental agencies enhanced asset management capabilities. The system can be deployed in physical security applications. The basic components of our PureRF Suite include:

- an active tag, which contains a microchip equipped transmitter, an antenna, a capacitor and battery attached to the item to be identified, located or tracked;
- a web-based management system, which captures and processes the signal from the active tag, and may be configured to provide an alert upon the occurrence of a trigger event;
- one or more wireless receivers;
- one or more activators; and
- the tag's initializer, which is used to configure the PureRF tags.

The 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. The ability to reliably identify and track the movement of people and objects in real time will enable PureRF Suite customers to detect unauthorized movement of vehicles, trace packages and containers, control personnel and vehicle access to premises, and protect personnel in hazardous working environments and disaster management situations.

Customers

Most of our customers are also our business partners, i.e., system integrators and distributors who introduce our solutions into their prospective markets. As part of our decision to provide complete solutions to customers, we anticipate that in year 2013 and on, the number of direct commercial and governmental customers will increase.

Market Opportunity

Radio frequency identification, or RFID, is a widely adopted technology in the auto-identification market, which addresses electronic identification and location of objects. Typically, an RFID tag or transponder is attached to or incorporated into a product or person. A handheld or stationary device that receives the radio frequency waves from these tags is used to determine their locations. Prior to the adoption of RFID, users identified and tracked assets manually as well as through the use of bar code technology. These solutions were limited because of the need for ongoing human intervention and the lack of instantaneous location capabilities. RFID technology possesses greater range, accuracy, speed and lower line−of−sight requirements than bar code technology.

Our PureRF Suite can track items simultaneously, providing an alert when a tagged item is removed from a pre-determined area, passes through a marked checkpoint or otherwise moves. We believe that potential customers for our PureRF Suite and products include the following:

Civil and Military Governments . Our PureRF Suite can provide secure access control into restricted areas and map and track visitors throughout a facility. Many high security facilities, including governmental and industrial facilities, need access monitoring. For example, nuclear power plants, national research laboratories and correctional facilities need to accurately and securely monitor inbound and outbound activity. Line of sight identifiers, such as identification cards, suffer from problems that our RFID technology readily overcomes, including reliance on human visual identification, forgery and tampering. Our PureRF Suite also enables identification and location of individuals in restricted areas in real time.

Airport and Port Security Infrastructure Providers . Our PureRF Suite can offer solutions for the transportation sector by enabling common carriers to monitor, track, locate and manage multiple baggage items simultaneously, thereby reducing risk of lost baggage, increasing customer service and improving security.

Businesses and Industrial Companies . Our PureRF Suite can be used by businesses, shippers and warehouse operators to manage and track cartons, pallets, containers and individual items in order to facilitate movement, order picking, inventory verification and reduce delivery time. In addition, industrial companies can manage and track their mobile equipment and tools. We believe that our PureRF 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 Care Homes . The healthcare sector has successfully utilized RFID technologies for the purposes of infant protection in maternity wards and wanders prevention in care homes similar to our asset and personnel location and identification system targeted at the secure facility and hazardous business sectors. Our PureRF 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, RFID technology will be utilized in real time location systems that are designed to immediately locate persons, equipment and objects within the hospital.

Livestock Owners . Our PureRF Suite can be used as livestock identification, tracking and safeguarding system

EM Division

The Electronic Monitoring division was established in order to provide a set of comprehensive and superior solutions for the Law enforcement and Resident industries. As a technology innovator in the arena of Radio Frequency Identification and Geographical location, we make use of its proven and solid platforms in order to deliver a state-of-the-art EM solution.

Being an innovative group, our EM division strives to design and provide the best possible products for its customers. We believe in long term relationship with our customers and partners, while keeping a transparent and open communication.

Being who we are, allows us to be fast, flexible and attentive. Equipped with the technological knowledge, and with senior personal from the EM industry on board, we can tailor-made your EM program, from Tag to servers, and from installation to monitoring. We make technology that serves justice **.**

Research and Development

Our past research and development efforts helped us to achieve the goal of offering our customers a complete line of products and solutions. We spent $ 0. 3 million, $0.5 million and $0.4 million on research and development in 2012, 2011 and 2010, respectively. These amounts were spent on the development or improvement of our technologies and products, primarily in the areas of wireless ID. We will continue to research and develop new technologies and products for the e-ID and wireless ID and monitoring market. There can be no assurance that we can achieve any or all of our research and development goals.

Sales and Marketing

We sell our systems and products worldwide through distribution channels that include direct sales and traditional distributor or reseller sales. We currently have 5 employees that are directly engaged in the sale, distribution and support of our products through centralized marketing offices in distinct world regions, including the employees of PureRFid, Inc., which sell our products in the U.S. We are also represented by several independent distributors and resellers with which we often have distribution agreements.

Our distributors and resellers sell our systems and products to business enterprises and government agencies and act as the initial customer service contact for the systems and products they sell. We establish relationships with distributors and resellers through written agreements that provide prices, discounts and other material terms and conditions under which the reseller is eligible to purchase our systems and products for resale. These agreements generally do not grant exclusivity to the distributors and resellers and, as a general matter, are not long-term contracts, do not have commitments for minimum sales and could be terminated by the distributor. We do not have agreements with all of our distributors.

Sales Analysis

Sales by Geographic Destination:

The following table provides a breakdown of total revenue by geographic market (all amounts in thousands of dollars):

	Year ended December 31,		
	2012	2011	2010
	Total revenues	Total revenues	Total revenues
Europe	$ 8,637	$ 7,498	$ 6,770
Asia Pacific	-	-	-
United States	217	344	536
Israel	86	80	83
	$ 8,940	$ 7,922	$ 7,389

The following table provides a breakdown of total revenue by product category (all amounts in thousands of dollars):

	Year ended December 31, 2011	2010	2009
Raw materials and equipment	$ 3,856	$ 5,822	$ 3,822
Maintenance, royalties and project management	5,084	2,100	3,567
	$ 8,940	$ 7,922	$ 7,389

Customer Service

We believe that customer support plays a significant role in our sales and marketing efforts and in our ability to maintain customer satisfaction, which is critical to our efforts to build our reputation and grow in our existing markets, as well as to our efforts to penetrate and grow in new markets. In addition, we believe that our interaction with our customers and the customers' feedback involved in our ongoing support functions provide us with information on customer needs and contribute to our product development efforts. We generally provide maintenance services under separate, tailor made agreements. We provide our service through customer training, local third-party service organizations, our subsidiaries, or our personnel, including appropriate personnel sent from any of our offices in U.S., or Israel. We generally provide our customers with a warranty for our products for 12 months. Costs incurred annually by us for product warranties have to date been insignificant; however, there can be no assurance that these costs will not increase significantly in the future.

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. All of our products and systems, whether or not manufactured by us, undergo several levels of testing, including configuration to customer orders and testing with current release software, prior to delivery.

Our manufacturing consists of a range of RFID products and e-ID and EM products or systems. We outsource the manufacturing for our PCB to a number of different suppliers. We sometimes commit to a long-term relationship 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 then tested, assembled, and retested. Other products are off-the-shelf products, which we purchase from a number of different suppliers.

All of the activities for e-ID and EM Projects, such as purchasing, logistics, integration, training, installation and testing, are done by our employees. In cases that we do not have a local representative, we use local third parties group and service providers, who perform according to our instructions and under our supervision.

Competition

We assess our competitive position from our experience and market intelligence, and from reviewing third party competitive research materials.

We believe that Zebra, RF Code, Axcess, Ekahau, Wave Trend, VT and Aeroscout are potential competitors, in niche areas, to us with respect to our wireless ID tracking products and solutions.

We believe that G4S/Guidance ("GFS: LN), Serco ("SRP: LN"), 3M Monitoring, Buddi, BU (Geo), iSecureTrac, SecureAlert ("SCRA:US") are potential competitors, to us with respect to our EM products and solutions.

We believe that 3M/Cogent, Tata, IRIS, Zetes, OTI, Muehl bauerm, Oberthur, Sagem, Morpho, Gemalto, Bundes Drukerei, Nadra are potential competitors, to us with respect to our e-ID products and solutions

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 we believe that our products 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 decreased market shares.

Due to the developing nature of the markets for our wireless ID, EM, e-ID, 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.

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 trademark, copyright, trade secret and other intellectual property laws, 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 U.S. Our means of protecting our intellectual property rights in Israel, the U.S. or any other country in which we operate may not be adequate to fully protect such rights.

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 OTI Transaction, we received an irrevocable, worldwide, non-exclusive, non-assignable and non-transferable license to use, in connection with the Existing Projects, the intellectual property that we transferred to OTI. Generally speaking, the license will be valid for the duration of all Existing Projects.

Government Regulation

We are subject to certain labor statutes and to certain provisions of collective bargaining agreements between the Histadrut (the General Federation of Labor in Israel) and the Coordinating Bureau of Economic Organizations, including the Industrialists' Association, with respect to our Israeli employees. In addition, some of our Israeli employees are also subject to minimum mandatory military service requirements. (See the discussion under the caption "Employees" in Section D of Item 6.)

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.

Employees

As of December 31, 2012 we had 19 full-time employees, compared to 14 full-time employees as of December 31, 2011 and 22 full time employees as of December 31, 2010. **(See the discussion under the caption "Employees" in Item 6D.)**

Our ability to succeed depends, among other things, upon our continuing ability to attract and retain highly qualified managerial, technical, accounting, sales and marketing personnel.

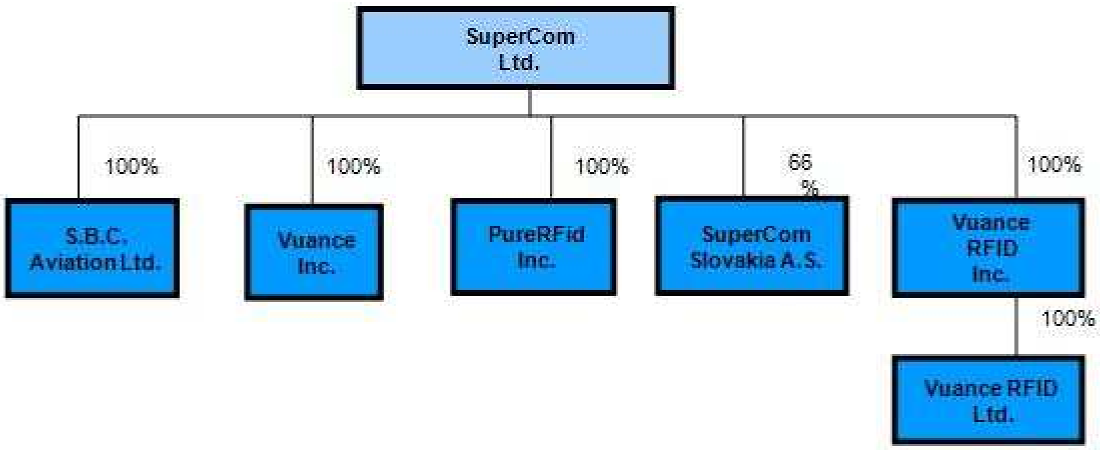
Seasonality

Our financial and operating results have fluctuated in the past and our financial and operating results could fluctuate in the future. The period between our initial contact with a potential customer and the sale 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 36 months and the typical sales cycle for our commercial customers has ranged from one to six 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 or federal and state grants. 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.

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.

C. Organizational Structure

The diagram below shows SuperCom Ltd.'s holdings in its subsidiaries and affiliates as of December 31, 2012 and April 15, 2013:



Vuance, Inc. (formerly, SuperCom Inc.)
Vuance, Inc., incorporated in Delaware, is our wholly-owned subsidiary, and was responsible for our US activities and operations U.S until January 2010, the Company discontinued its operation after the sale of its main operation at January of 2010, and it is presented in the financial reports as discontinued operations.

Vuance - RFID Inc.
Vuance - RFID Inc. (formerly, Pure RF Inc.) incorporated in Delaware in November 2005. Upon its incorporation we owned 80% of its shares. During January 2006, Vuance - RFID Inc. established a wholly owned Israeli subsidiary, Vuance RFID Ltd. (formerly, Pure RF Ltd.), which focuses on new technologies and solutions for the tracking of people and assets. During February 2007, Vuance - RFID Inc. became our wholly-owned subsidiary. In August 2007, all the employees of Vuance RFID Ltd. were transferred to us, and on December 31, 2007 we purchased all of the assets and liabilities of Vuance RFID Ltd. Commencing year 2008, Vuance RFID Inc. engaged in an activity to distribute complementary locks and electronic locks. This activity was terminated in the fourth quarter of 2008.

S.B.C Aviation Ltd.
S.B.C Aviation Ltd., incorporated in Israel in the fourth quarter of 2006, is our wholly-owned subsidiary, which commenced operations in 2007, and focused on executing information technology and security projects.

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. Despite our ownership of almost two-thirds of the economic interests of SuperCom Slovakia, our voting power in SuperCom Slovakia is 50%.

PureRFid, Inc.
PureRFid, Inc., incorporated in Delaware, is our wholly-owned subsidiary, and as of January 2010 is responsible for our sales and marketing, and support in the U.S.

SuperCom Asia Pacific Limited ("SuperCom Asia Pacific")
SuperCom Asia Pacific, incorporated in Hong Kong, had been our wholly-owned subsidiary since November 2003, and had been responsible for our sales and marketing efforts in Asia Pacific. In the third quarter of 2009, we began to wind down operations of SuperCom Asia Pacific. We sold our entire equity interest in SuperCom Asia Pacific, for no consideration pursuant to a purchase agreement entered into on or about October 21, 2010.

D. *Property, Plants and Equipment*

We do not own any real estate.

We lease approximately 685 square meters of facilities in Hertzliya Pituach, Israel under a two-year lease contract, currently expiring on September 3 0 , 2013. According to the agreement, the monthly fee (including management fees) is approximately $15,000.

The total annual rental fees, net of rent income from subleases, for 2012, 2011 and 2010 were $194 ,000, $176 ,000 and $121,000, respectively. The total annual lease commitments for 2013 are $141,000 .

All assets are held in the name of SuperCom Ltd. and its subsidiaries.

The following table details our fixed assets as of December 31, 2012, 2011 and 2010:

	December 31,		
	2012	2011	2010
	(In thousands of US Dollars)		
Cost:			
Computers and peripheral equipment	$ 274	$ 254	$ 262
Office furniture and equipment	198	194	197
Leasehold improvements	29	24	45
	501	472	504
Accumulated depreciation:			
Computers and peripheral equipment	253	246	244
Office furniture and equipment	143	128	120
Leasehold improvements	12	2	30
	408	376	394
Depreciated cost:	$ 93	$ 96	$ 110

Depreciation expenses for the years ended December 31, 2012, 2011 and 2010 were $32,000 $28,000 and $47,000, respectively.

The property & equipment also include intangible assets in amount of $72,000, which been fully depreciation.

ITEM 4A. *Unsolved Staff Comments.*

Not applicable.

ITEM 5. *Operating and Financial Review and Prospects.*

A. *Operating results*

The following section should be read in conjunction with our consolidated financial statements and the related notes thereto, which have been prepared in accordance with U.S. GAAP and which are included in Item 18. Some of the statements contained in this section constitute "forward-looking statements." These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. (See "Note Regarding Forward Looking Statements" at the beginning of this report, and "Risk Factors" In Item 3D)

Revenues

The Company and its subsidiaries had generated the majority of their revenues from existing e-ID and security long term services contracts, providing their customers with, support, maintenance, royalties, training and installation. Following delivery of such services, usually revenues from the sale of such services are recognized .

The Company and its subsidiaries had generated some of their revenues(less than 10%) from the sale of active RFID & Mobile Based products. Following delivery of such products, usually revenues from the sale of such products are recognized .

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.

Operating Expenses

Our costs associated with a particular project may vary significantly depending on the specific requirements of the customer, the terms of the agreement, as well as on the extent of the technology licensing. As a result, our gross profits from each project may vary significantly.

Our research and development expenses consist of salaries and related, raw material, subcontractors, depreciation costs and overheads 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 shows , 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, human resources, information technology, depreciation, and professional service fees, including legal counsel, insurance and audit fees.

Net Income (Loss)

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 (loss) may fluctuate substantially from quarter to quarter, and comparisons over longer periods of time may be more meaningful. The nature of our certain expenses is mainly fixed or semi-fixed and any fluctuation in revenues will generate a significant variation in gross profit and net income (loss) .

Critical Accounting Policies and Estimates

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 are based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. ("US 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-ID and security long term services contracts, providing our customers with, support, maintenance, royalties, training and installation. In addition we generate some of our revenues(less than 10%) from the sale of active RFID & Mobile Based products. We render services and sell our products in the U.S. through distributors and our local subsidiary, PureRFid, Inc., and directly throughout the rest of the world.

Services and Products sales are recognized in accordance with Staff Accounting Bulletin No. 104, “Revenue Recognition” (“SAB No. 104”), 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 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. We are 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, 2012, we had an allowance for customer returns in an amount of $6.

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 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. As of December 31, 2012, no such estimated losses were identified.

We believes that the use of the percentage of completion method is appropriate, since the Company has the ability, using also an independent subcontractor's evaluation, to make reasonably dependable estimates of the extent of progress made towards completion, contract revenues and contract costs. In addition, contracts executed 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, we expect to perform its contractual obligations and the parties are expected to satisfy their obligations under the contract.

In contracts that do not meet all the conditions mentioned above, we utilized 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, 2011 and 2012, all the long-term contracts were completed and their related revenues were recognized in full.

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.

Deferred revenues and customer advances include amounts received from customers for which revenues have not been recognized.

We are entitled to royalties upon of the issuance of a certificate. Such royalties are recognized when the sales are reported to us (usually on a monthly basis).

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.

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 $1,726,000 and $134,000 at December 31, 2012 and 2011, respectively. The increase in the allowance for doubtful accounts in the amount of $1,592, is based on our assessment of collectability and the substantial effort and expenses, required to collect payment from one of our large European customer, the payment has been payable upon the completion of contracts with this customer.

Deferred Taxes

The Company accounts for income taxes, in accordance with the provisions of 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 has been generated. Changes in those estimations could lead to changes in the expected realization of the deferred tax assets and to the increase or decrease in valuation allowance.

Debt to Equity Conversion

The Company accounts for its debt restructuring, determined to be troubled debt restructuring, in accordance with ASC 470-60 ("Troubled Debt Restructurings by Debtors"). The provisions of ASC 470-60 require that assets transferred or shares issued to fully or partially settle the debt should be measured at fair value. If shares are issued to fully settle the debt, the difference between the fair value of the shares issued and the carrying value of the debt would be recognized as a gain on restructuring. Determining the fair value of the shares issued, if not traded in active markets, can be highly subjective and any change in those values affecting the gain on restructuring to be recorded in the financial statements.

Contingencies

From time to time, we are the defendant or plaintiff in various legal actions, which arise in the normal course of business. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required for these contingencies, if any, which would be charged to earnings, is made after careful and considered analysis of each individual action with our legal advisors. The required reserves may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy. A change in the required reserves would affect our earnings in the period the change is made. Other than as described under the heading “Legal Proceedings” in Item 8, there are no material pending legal proceedings in which we are a party or of which our property is subject.

Results of Operations

The following table sets forth selected our consolidated income statement data for each of the three years ended December 31, 2012, 2011 and 2010 expressed as a percentage of total revenues.

	2012	2011	2010
Revenues	100%	100%	100%
Cost of revenues	18.1	41.7	27.8
Gross profit	81.9	58.3	72.2
Operating expenses			
Research and development	3.5	5.8	5.2
Selling and marketing	34.2	44.2	59.6
General and administrative	9.6	9.2	26.9
Other (income) expenses	12.1	(1.7)	(5.4)
Total operating expenses	59.5	57.6	86.3
Operating (loss) income	22.4	0.7	(14.2)
Financial (expenses) income, net	20.2	12.5	(9.2)
Income (loss) before income tax	42.6	13.2	(23.4)
Income tax	11.3	(0.3)	(0.7)
Loss from discontinued operations	-	-	(2.6)
Net (loss) income	53.9	12.9	(26.6)

Operating Results

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues

Our revenues from continuing operations in 2012 were $8,940,000, compared to $7,922,000 in 2011, an increase of 13%. The increase in our revenues from continuing operations is primarily due to an increase in revenues from our e-ID and Security projects.

Gross Profit

Our gross profits from continuing operations in 2012 were $7,321,000 compared to $4,616,000 in 2011, an increase of 58%. The gross profit margin for the year 2012 was 82% compared to 58% in 2011. The increase in gross profit margin attributed to changes in our mix of revenues from products, services and royalties, and due to reduction of subcontractor provisional cost in the amount of $756,000 upon project completion

Expenses

Our operating expenses from continuing operations in 2012 were $5,315,000, compared to $4,562,000 in 2011, an increase of 16%. The increase in operating expenses from continuing operations was primarily due to large increase in other expenses and decrease in selling and marketing expenses, as discussed below.

Research and development from continuing operations expenses consist primarily of salaries and related costs, raw material, subcontractors, depreciation and amortization costs and overheads allocated to research and development activities. Our research and development expenses from continuing operations in 2012 were $313,000, compared to $462,000 in 2011, a decrease of 32%. The decrease in our research and development expenses from continuing operations was primarily due to an allocation of R&D engineers to project related development which is presented in COGS.

Sales and marketing expenses from continuing operations consist primarily of salaries and related costs, commissions earned by sales and marketing personnel and partners, trade shows and overheads allocated to selling and marketing activities, as well as depreciation and amortization expenses and travel costs. Our sales and marketing expenses from continuing operations in 2012 were $3,060, 000, compared to $3,505,000 in 2011, a decrease of 13%. The decrease in the sales and marketing expenses from continuing operations was primarily due to a decrease in commission expenses, arising from an optimization and cost reduction of our distribution, representatives and dealers networks worldwide.

General and administrative expenses from continuing operations consist primarily of salaries and related costs, allocated overheads, office supplies and administrative, fees and expenses of our directors, human resource, information technology, depreciation and amortization, and professional service fees, including legal counsel, insurance and audit fees. Our general and administrative expenses from continuing operations in 2012 were $857,000, compared to $732,000 in 2011, an increase of 17%. The increase in general and administrative expenses from continuing operations was primarily due to an increase in salaries and related costs.

Other expenses from continuing operations in 2012 was $1,085,000, compared to an other income of $137,000 in 2011, The transfer from other income to other expenses is primarily, due to bad debts expenses based on management's estimation with respect to the collectability of certain debt, offset by a capital gain attributed to debt to equity conversion related to certain service providers of the Company.

Financial (Expenses) Income, net

Financial (expenses) income from continuing operations consist primarily of interest related to bank credit line and Bonds, bank fees, gain on bond to equity conversion, and exchange rate expenses. Financial income from continuing operations for the year ended December 31, 2012 was $1,805,000 compared to financial income from continuing operations in 2011 of $990,000. The increase in financial income is mainly due to an increase in the capital gain on bond to equity conversion as part of the Debt Restructuring, recognized in 2012 and in 2011.

Income Tax

Income tax benefit from continuing operations for the year ended December 31, 2012 was $ 1,006,000 compared to Income tax of $ 25,000 for 2011. The transfer to tax benefit is due to a decrease in the valuation allowance in a total amount of $ 1,006,000 in respect of deferred tax assets resulting from tax loss carry forwards, compared to withholding tax at its source expenses related to our project with a European country in the year 2011.

Loss from discontinued operations

Loss from discontinued operations for the years ended December 31, 2012 and 2011 were nil.

Net Income

As a result of the factors described above, our net income in 2012 was $4,817,000, compared to a net income of $1,019,000 in 2011.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenues

Our revenues from continuing operations in 2011 were $7,922,000, compared to $7,389,000 in 2010, an increase of 7%. The increase in our revenues from continuing operations is primarily due to an increase in revenues from our E-id project.

Gross Profit

Our gross profits from continuing operations in 2011 were $4,616,000 compared to $5,332,000 in 2010, a decrease of 13%. The gross profit margin for the year 2011 was 58% compared to 72% in 2010. The decrease in gross profit margin attributed to changes in our mix of revenues from products and services. Revenues from the selling of services have higher gross profit than revenues from selling of products.

Expenses

Our operating expenses from continuing operations in 2011 were $4,562,000, compared to $6,380,000 in 2010, a decrease of 28%. The decrease in operating expenses from continuing operations was primarily due to a decrease in selling and marketing expenses and a decrease in general and administrative expenses, as discussed below.

Research and development from continuing operations expenses consist primarily of salaries and related costs, raw material, subcontractors, depreciation and amortization costs and overheads allocated to research and development activities. Our research and development expenses from continuing operations in 2011 were $462,000, compared to $386,000 in 2010, an increase of 20%. The increase in our research and development expenses from continuing operations was primarily due to an increase in salaries and related costs due to headcount increase.

Sales and marketing expenses from continuing operations consist primarily of salaries and related costs, commissions earned by sales and marketing personnel and partners, trade shows and overheads allocated to selling and marketing activities, as well as depreciation and amortization expenses and travel costs. Our sales and marketing expenses from continuing operations in 2011 were $3,505,000, compared to $4,405,000 in 2010, a decrease of 20%. The decrease in the sales and marketing expenses from continuing operations was primarily due to a decrease in promotional expenses, arising from the increase in revenue from raw material and decrease in revenue from royalties and other services.

General and administrative expenses from continuing operations consist primarily of salaries and related costs, allocated overheads, office supplies and administrative, fees and expenses of our directors, bad debts expenses, human resource, information technology, depreciation and amortization, and professional service fees, including legal counsel, insurance and audit fees. Our general and administrative expenses from continuing operations in 2011 were $732,000, compared to $1,985,000 in 2010, a decrease of 63%. The decrease in general and administrative expenses from continuing operations was primarily due to a decrease in salaries and related costs, a decrease in legal expenses and due to a change in management's estimation with respect to the collectability of certain debt which was considered doubtful in 2010 and as of December 31, 2011, on the basis of communications held with the customer, is not considered as doubtful of collection.

Other income from continuing operations in 2011 was $137,000 and consisted primarily of gain from the extinguishment of working capital related liabilities as part of the Creditor Arrangement, compared to $396,000 in 2010, which consisted of capital gain from the sale of our Hong Kong subsidiary and gain from the Creditor Arrangement.

Financial (Expenses) Income, net

Financial (expenses) income from continuing operations consist primarily of interest related to our Convertible Bonds, bank fees, gain on extinguishment of convertible bonds as part of the Creditor Arrangement and exchange rate expenses. Financial income from continuing operations for the year ended December 31, 2011 was $990,000 compared to financial expenses from continuing operations in 2010 of $678,000. The transfer from financial expenses to financial income is mainly due to a $2,006,000 capital gain on extinguishment of debt related to convertible bonds, recognized in 2011, as part of the Creditor Arrangement, which was maintained by an increase in financial expenses with respect to our Convertible Bonds caused by an increase in the interest rate of the bonds and due to our breach of the covenants under the Convertible Bonds, as amended, which required us to incur additional interest of 3% per month on unpaid amounts. The additional interest expenses amounted to $271,000 during the year ended December 31, 2011.

Income Tax

Income taxes from continuing operations are mainly expenses related to withholding tax at source related to our project with a European country. Income taxes on income from continuing operations for the year ended December 31, 2011 and 2010 were $25,000 and $50,000, respectively. The decrease is mainly due to a decrease related to withholding tax at its source expenses.

Loss from discontinued operations

Loss from discontinued operations for the year ended December 31, 2010 was $189,000. The loss from discontinued operations is attributed to the sale of our EAC and CSMS businesses, which were sold in January 2010.

Net (Loss)Income

As a result of the factors described above, our net income in 2011 was $1,019,000, compared to a net loss of $1,965,000 in 2010.

Impact of Inflation and Currency Fluctuations

Because the majority of our revenue is paid in or linked to the U.S. dollar, we believe that inflation and fluctuation in the NIS/dollar exchange rate has limited effect on our results of operations. However, a portion of the cost of our Israeli operations, mainly personnel, is incurred in NIS. Because some of our costs are in NIS, inflation in NIS/dollar exchange rate fluctuations does have some impact on our expenses and, as a result, on our net income. Our NIS costs, as expressed in dollars, are influenced by the extent to which any increase in the rate of inflation in Israel is not offset, or is offset on a delayed basis, by a devaluation of the NIS in relation to the dollar.

Historically, the New Israeli Shekel has been devalued in relation to the U.S. dollar and other major currencies principally to reflect the extent to which inflation in Israel exceeds average inflation rates in Western economies. Such devaluations in any particular fiscal period are never completely synchronized with the rate of inflation and therefore may lag behind or exceed the underlying inflation rate.

In 2012 , the rate of appreciation of the NIS against the U.S. dollar was 2.3% and the rate of inflation, in Israel, was 1.6%. It is unclear what the devaluation/evaluation and inflation rates will be in the future, and we may be materially adversely affected if inflation in Israel exceeds the devaluation of the NIS against the U.S. dollar or the evaluation of the NIS against the U.S. Dollar, or if the timing of the devaluation lags behind increases in inflation in Israel.

We do not engage in any hedging or other transactions intended to manage risks relating to foreign currency exchange rate or interest rate fluctuations. At December 31, 2012, we did not own any market risk sensitive instruments except for our revolving line of credit. However, we may in the future undertake hedging or other similar transactions or invest in market risk-sensitive instruments if our management determines that it is necessary or advisable to offset these risks.

Seasonality

Our quarterly operations are subject to fluctuations due to several factors, including the factors discused under the caption “Risk Factors—The time from our initial contact with a customer to a sale is long and subject to delays which could result in the postponement of our receipt of revenues from one accounting period to the next, increasing the variability of our results of operations and causing significant fluctuations in our revenue from quarter to quarter” in Item 3.D. It is our experience that, as a general matter, a majority of our sales are made during the latter half of the calendar year consistent with the budgetary, approval and order processes of our governmental agencies customers. Additionally, 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 expenses, particularly for government and government agencies organizations. 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, which could have an adverse effect on our results of operations.

New Accounting Pronouncements

Accounting pronouncements adopted in 2012

ASC Topic 220, “Comprehensive Income”

In June 2011, the FASB issued Accounting Standard Update (ASU) 2011-05, “Comprehensive Income (Topic 220) - Presentation of Comprehensive Income” (ASU 2011-05). ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity and requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements.

ASU 2011-05 will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 (fiscal year 2012 for us) and should be applied retrospectively.

In December 2011, the FASB issued Accounting Standard Update (ASU) 2011-12, which defers certain provisions contained in ASU 2011-05 requiring the requirement to present components of reclassifications of other comprehensive income on the face of the income statement or in the notes to the financial statements. However, this deferral does not impact the other requirements contained in the new standard on comprehensive income as described above. ASU 2011-12 is effective during interim and annual periods beginning after December 15, 2011 (fiscal year 2012 for us). The impact of the adaption was not significant

Accounting pronouncements not yet effective:

ASC Topic 210, "Balance Sheet"

In December 2011, the FASB issued Accounting Standard Update (ASU) 2011-11, "Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities" (ASU 2011-11). ASU 2011-11, enhance disclosures about financial instruments and derivative instruments that are either offset in accordance with the Accounting Standards Codification or are subject to an enforceable master netting arrangement or similar agreement.

The amended guidance will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (fiscal year 2013 for us) and should be applied retrospectively to all comparative periods presented.

We are currently evaluating the impact that the adoption of ASU 2011-11 would have on our consolidated financial statements, if any.

B. Liquidity and Capital Resources

Net cash provided by operating activities for the year ended December 31, 2012 was $24,000, compared to net cash used by operating activities of $189,000 during the period ended December 31, 2011, a transfer from negative to positive cash flow from operation activities of $213,000. This transfer was primarily due to net income of $4,817,000 in 2012 compared to $1,019,000 during 2011, which was maintained by a decrease in trade payables of $659 ,00 0, and a decrease in accrued expenses and other liabilities of $638,000 during 2012.

Net cash used by investing activities during the year ended December 31, 2012 was $3,000, compared to net cash provided by investing activities of $116 ,000 during the period ended December 31, 2011, a transfer from positive to negative cash flow from investing activities of $119 ,000. This transfer was primarily due to no investment activities in 2011 .

Net cash used by financing activities during the year ended December 31, 2012 was $11,000 , compared to Net cash provided by financing activities of $91,000 during the year ended December 31, 2011 , a decrease of $102,000 .

As of December 31, 2012 , our cash and cash equivalents totaled $225,000, compared to $215,000 as of December 31, 2011.

We have accumulated net losses of approximately $43,508,000 from our inception through December 31, 2012 .

In November 2006, we raised $3,156,500 through the issuance of units consisting of convertible bonds, or the Convertible Bonds and warrants. Units valued at $2,500,000 were issued to Brevan Howard Master Fund Limited or "BH" and units valued at $656,500 were issued to Special Situation Funds (SSF). According to their original terms the Convertible Bonds matured three years from the date of issuance and bore interest at an annual rate of 8%. The Convertible Bonds provided that any withholding and other taxes payable with respect to the interest will be grossed up and paid by us (approximately 3% of the principal of the bonds); and payment of interest will be net of any tax. Subject to certain redemption provisions, the Convertible Bonds may be converted at any time, at the option of the holders, into our ordinary shares at an original conversion price of $5 per share. The holders were also granted warrants entitling them to acquire a total of 134,154 ordinary shares at an original exercise price of $5 per share during the next five years.

In November 2007, due to a breach of certain conditions of the Convertible Bonds, the holders had the right to accelerate the repayment of the principal with all the interest payable until the maturity date of the bonds. However, we signed an amendment to the agreement with the holders under which we were required to pay to one of the holders interest in the amount of $276,000 (together with any withholding and other taxes payable with respect to the interest (approximately 3% of the principal of the Convertible Bonds)) and with respect to the other holder we changed the conversion ratio of the Convertible Bonds to $4.25. In a consideration the holders waived their right to accelerate the repayment of the Convertible Bonds.

In June 2008, following a breach in the amended terms of the Convertible Bonds, we reached an agreement with BH, pursuant to which, among other things, BH waived the requirement that we comply with certain covenants under its Convertible Bonds, in exchange for:

1. Increasing the interest rate to 10% starting March 31, 2008. Any withholding and other taxes payable with respect to the interest will be grossed up and paid by us (approximately 3% of the principal of the bonds).
2. Reducing the exercise price of the bond and the warrants to $3 and $2.8, respectively.
3. Our undertaking to place a fixed charge on all income and/or rights in connection with a certain European Airport Project. This charge shall be senior to any indebtedness and/or other pledge and encumbrance, but shall, however, be subject to certain rights of us to use part of the income.
4. Our granting of certain anti-dilution rights with respect to the warrants held by BH.

In addition, it was agreed that under certain circumstances BH may demand an early payment in part or in full of the principal amount of its Convertible Bond.

On August 12, 2009, we entered into an agreement with BH to make additional amendments to certain terms of its Convertible Bond, (the “Amendment Agreement”), pursuant to which, in exchange for security in certain of our assets, including all incomes and/or rights in connection therewith to which we and our Subsidiaries are and shall be entitled to as a result of certain legal proceedings involving our Slovakian subsidiary SuperCom Slovakia, and all amounts in connection with the project related to the legal proceedings, BH agreed to (a) waive the requirement that we comply with and (b) amend certain provisions of, its Convertible Bond including, (i) increasing the applicable rate of interest to 12% and by 0.5% every 180 days afterward, (ii) releasing us from certain payments upon the completion of certain payments of principal and interest due under the Convertible Bond, (iii) making monthly payments of $41,000 against the total amount due under the Convertible Bond over an eight (8) year period, and (iv) increasing the number of warrants granted to 159,375 and amend their exercise price of all the warrants to $0.40 per share. The modification was determined to be a debt extinguishment. **For more information on the legal proceedings involving SuperCom Slovakia, see Item 8 – Legal Proceedings.**

On November 9, 2009, we entered into an amendment agreement with Special Situation Funds or “SSF”, the holder of the Convertible Bond in the amount of $623,565, pursuant to which, in exchange for a security in certain of our assets, SSF agreed to (a) waive its requirement that we comply with and (b) amend certain provisions of, its Convertible Bond including, (i) increasing the applicable rate of interest to 12% and by 0.5% every 180 days afterward, (ii) releasing us from certain payments upon the completion of certain payments of principal and interest due under its Convertible Bond, (iii) making monthly payments of $10,000 against the total amount due under the Convertible Bond over an eight (8) year period, (iv) reducing the exercise price of the Convertible Bond and the warrants to $3 and $0.4, respectively and, (v) increase the number of warrants granted to 31,238. The modification was determined to be a debt extinguishment.

In January 2010, we have received the investors’ consent to sell our EAC and CSMS businesses (as described in Item 4). In addition, we created a specific (fixed) charge in favor of the investors on the intellectual property rights belonging to our remaining RFID business.

On March 22, 2010, we entered into a Subscription Agreement with a private investor, Mr. Yitzchak Babayov (the “Investor”), pursuant to which at a March 23, 2010 closing we issued 1,538,461 ordinary shares of the Company (the “Transaction Shares”) in consideration of a one-time cash payment in the amount of $200,000. Concurrent with the issuance of the Transaction Shares, we entered into a Warrant Agreement with the Investor, pursuant to which the Investor received a warrant (the “Warrant”) to purchase up to 553,846 of our ordinary shares at an exercise price of $0.15 per share. The Warrant has a term of five (5) years and contains standard adjustments for stock dividends, stock splits, reclassification and similar events.

On August 24, 2010, BH entered into an Absolute Assignment and Transfer of Bond and Warrant (“Assignment”) with Sigma, an Israeli company and our controlling shareholder. Pursuant to the Assignment, BH transferred to Sigma all of its rights in the BH Convertible Bonds and warrants. The Assignment had no impact on our assets or liabilities or our financial results.

At the annual general meeting of our shareholders held on September 12, 2010, our shareholders resolved to afford certain of our major creditors with the opportunity to convert the amounts owed to them into our ordinary shares, by means of a set off against the then total outstanding debt to such creditor, at a price of $0.09 per ordinary share, subject to forgiveness of 60% of our total outstanding debt to such creditor. Our board of directors was authorized to set all other terms of the Creditor Arrangement, including, inter alia, its timetable ("Debt to Equity Proposal").

On November 3, 2010, the Company filed an application with the District Court in Israel, in order to approve our Debt to Equity Proposal with all our creditors (including convertible bond holders) in accordance with Section 350 of the Israeli Companies Law. On July 18, 2011, the District Court decided not to approve the Company's application, mainly due to an objection to the proposed arrangement filed by SSF. Following the assignment of the Convertible Bond held by SSF to Mr. Eliyahu Trabelsi, we have reached the agreement of all of our bond holders to the original Debt to Equity arrangement. In February 2012, following the approval of the board of directors, the Company decided to continue with the original Debt to Equity proposal without further proceeding in the District Court.

During 2010-2013, certain of our major creditors which were afforded with the opportunity to convert the amounts owed to them into our ordinary shares, had accepted our offer, and following the forgiveness and conversion of debt pursuant to the aforesaid offer, we allotted for those certain creditors a total of 2,544,457 warrants, and 29,552,011 of our ordinary shares. (**For more information on the Debt to Equity Conversion see ITEM 18, NOTE 1.d-Extinguishment of Liabilities .).**

During the period from January 1, 2012 to December 31, 2012, our capital expenditures totaled approximately $28, 000 , (compared to $23,000 during 2011 and $4,000 during 2010, of which approximately $28,000 (compared to $23,000 during 2011 and $4,000 during 2010) was expended at or upon our facilities in Israel, and approximately $ 0 (compared to $0 during 2011 and $0 during 2011) was expended upon the various facilities of our subsidiaries outside of Israel.

C. Research and Development, Patents and Licenses, etc.

Our past research and development efforts have helped us to achieve our goal of offering our customers a complete line of products and solutions. As of December 31, 2012 the number of employees in our research and development activities was 6. We focus on our new technology and products of our wireless ID, e-ID and our electronic monitoring solutions, and expect to maintain our current research and development efforts. We spent $0.31 million, $0.46 million and $0.39 million on research and development in 2012, 2011 and 2010, respectively. These amounts were spent on the development or improvement of our technologies and products, primarily in the area of wireless ID and electronic monitoring. We will continue to research and develop our wireless ID, e-ID and electronic monitoring solutions and products. There can be no assurance that we can achieve any or all of our research and development goals.

D. Trend Information

See – "Results of operations" in Item 5.A for additional information.

Industry Trends

The increased demand for better security systems and services has positively affected trends within the industry. Personnel and asset management are now leading security concerns in commercial and governmental enterprises. This has created 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 wireless ID-enabled security 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, trace packages and containers, control personnel and vehicle access to premises.

Market and Operational Trends

Our quarterly operations results may be subject to significant fluctuations due to several factors. Some of these factors are based primarily on the timing of large orders, which represent a significant percentage of our revenues, customer budget cycles and impact on the timing for buying decisions, as well as competitive pressures and the ability of our partners, distributors and system integrators to become effective in selling and marketing our products, as well as other factors.

We expect to benefit from marketing programs and leads generated by partnerships, distributions and systems integration network, as well as sales opportunities identified by them. We intend to expand our marketing and implementation capacity through these third parties, including vendors of complementary products and providers of service applications. By employing third parties in the marketing and implementation process, we expect to enhance sales by taking advantage of their market presence.

A significant portion of our 2012 revenues was derived from our governmental projects and the remainder was derived from commercial customers. Historically, our revenues have been concentrated in a few large orders and in a relatively small number of customers. We expect this trend to change and we expect that future revenues will come from larger number of orders and customers.

For more information about our expectations regarding future cost of revenues, future operating expenses and liquidity and capital resources, please refer to the section captioned "Risk Factors" in Item 3.D., the sections captioned "Results of Operations" in Item 5.A and the section captioned "Liquidity and Capital Resources" in Item 5.B.

Our development and marketing efforts for the solution and product platforms are aimed at addressing several systems and service trends that we see developing in the industry.

In December 2006, we concluded the sale of our E-ID Division to OTI. The sale allowed management to focus primarily on the market opportunities we identified for our former CSMS and active RFID solutions. Following the events of September 11, 2001 and other major disasters it has become increasingly important for agencies to track personnel, assets, and other objects on a local positioning basis. Prior to January 2010, we offered our CSMS and RAPTOR solutions to fulfill critical homeland security requirements for public safety and emergency services agencies and local counter-terrorism task forces. In January 2010, we completed the sale of our Electronic Access Control business and our CSMS business to focus our sales and marketing efforts on our core competencies, our wireless ID, e-ID and our electronic monitoring solutions.

As of the date of this Annual Report, we expect that our 2013 revenues will be primarily derived from:

- e-ID and e-Gov projects; and
- Wireless ID products and solutions .
- Electronic Monitoring

Recent Developments and Outlook

We expect revenues to continue to be derived from one-time sales and recurring fees, sales of high-end solutions, sales of products, consumables and technology. Sales are expected to continue through OEM partnerships and continual upgrades, maintenance and support will continue to be provided to customers. For more information see the section captioned " *Recent Developments* " in Item 4.

E. Off Balance Sheet Arrangements

We do not have any off-balance sheet transactions that have or are reasonably likely to have a material effect on our current or future financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

F. Tabular Disclosure of Contractual Obligations

Contractual Obligations

The following table summarizes our material contractual obligations and commitments as of December 31, 2012:

Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations	--	--	--	--	--
Capital (finance) lease obligations	--	--	--	--	--
Bank loan and credit line	$ 101 ,000	$ 101 ,000	--	--	--
Operating lease obligations	$ 141 ,000	$ 141 ,000	--	--	--
Total contractual cash obligations	$ 242 ,000	$ 242 ,000	--	--	--

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. Total contractual cash obligations represent significant outstanding commitments for loans from banks, convertible bonds, 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

Board of Directors

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 persons who served as directors immediately prior to the annual meeting 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.

The Board of Directors is composed as follows (as of the date of this Annual Report):

Name	***Age***	***Position***
Tsviya Trabelsi	55	Director, Chairman of the Board
Menachem Mirski	57	Director (2)(3)
Avi Ayash	42	External Director (1) (2) (3)
David Mimon	52	Director
Shlomit Sarusi	55	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

Mrs. 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 has acted as our Chairperson from July 2010 until December 2011. Mrs. Trabelsi is a Certified Public Accountant with extensive financial management experience in Israel and the United States. Mrs. Trabelsi is currently the CFO of Sigma Wave Ltd, ("Sigma") , a wireless and internet based company and our controlling shareholder, and also President and Director of Klikot Inc., an internet based company. Mrs. Trabelsi holds a BA in Economics and Accounting from the University of Tel-Aviv. Mrs. Trabelsi is the wife of Mr. Arie Trabelsi our CEO.

Mr. Menachem Mirski has served as a director of the Company since 25th July, 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 26 years of significant 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.

Mr. David Mimon has served as a director of the Company since 25 th July, 2010 and is an Advocate and Notary with extensive experience in providing legal representation and consulting services to individuals and companies in various areas of law. He is the owner of a legal practice with offices in Netanya and Haifa, Israel. Mr. Mimon holds a LLM from the University of Tel-Aviv. Mr. Mimon is the brother of Mrs. Tsviya Trabelsi, the Chairperson of our Board.

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 13 years of extensive experience in development and deployments of advanced e-Commerce, e-Payments & CRM - Mobile and internet based solutions. Mrs. Sarusi has led research, development and implementation of solutions, for various IDF' departments of 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 16 years of extensive experience in financial, pension and insurance consulting. Mr. Ayash holds a BA degree and MA degree in Economics from The Hebrew University, a degree in Actuarial Studies from Haifa University and a pension consultant license.

Executive Officers and Key Employees

As of the date of this Annual Report, our executive officers and certain key employees who are not also directors are:

Name	Age	Position
Arie Trabelsi	55	President and Chief Executive Officer
Meira Zada	36	Chief Financial Officer
Igor Merling	55	Chief Technology Officer
Mark Riaboy	74	Vice President, National Project
Amir Shemesh	40	Vice President, Electronic Monitoring
Brenda Gebhardt	49	President and Chief Operations Officer of PureRFid Inc.

Arie Trabelsi , President and Chief Executive Officer, Mr. Trabelsi joined us in November 2010. Mr. Arie Trabelsi is also the CEO of PureRFId Inc. Has more than 28 years of extensive experience in the Global wireless, Internet and Communication Industries. Prior to Joining SuperCom, led Sigma Wave group, providers of innovative Internet and Wireless Technologies & Solutions. Mr. Trabelsi holds BSc degree in Electrical & Computer Engineering from Ben Gurion University and MSc. degree in Computer Engineering from Drexel University in PA USA

Brenda Gebhardt , PureRFid, Inc. - President and Chief Operations Officer. With over 15 years of experience in the fire and security industry, Ms. Gehhardt has managed projects at Vuance Inc., ADT and Cintas. She has experience in operations including the integration of RFID technologies and facility management applications to control space and assets. Ms. Gehhardt holds a diploma in nursing.

Meira Zada , Chief Financial Officers, Ms. Zada joined us in June 2012, Prior to SuperCom, Ms. Zada served for seven years, as the Finance Controller of Elspec Ltd. Ms. Zada holds a B.A. in Economics and Accounting, from the Ruppin University, Israel and is a Certified Public Accountant in Israel

Igor Merling , Chief Technology Officer, Prior to Re-joining us in 2012, Igor served for 6 years, in On Track Innovation-Smart ID Division, as the Chief Technology Officer. Igor served SuperCom from 1991 until 2006, as Software developer and Architect for national ID systems. Igor holds B.SC Electrical Engineering at Technion from Israel Institute of Technology

Mark Riaboy , Vice President, National Project, Mr. Riaboy joined us in November 1995, Prior to SuperCom , mark was Chief of Laboratory of new semiconductor's devices at USSR, Special Constructor Bureau, Moscow during 20 years and in Israel worked as Artificer of factory, chief of sector
Mark holds a degree of Physics, Engineer of electronic techniques, Moscow, USSR and a degree from University of Steels and Alloys, Faculty of semiconductors materials and devices.

Amir Shemesh , Vice President, Electronic Monitoring, Joined us in January 2013, with over 13 years of experience in customer facing managerial positions. Mr. Shemesh brings vast experience in Law Enforcement and Electronic Monitoring markets, as well as extensive understanding of customers' needs. Prior to SuperCom, Mr. Shemesh was the Director of Customer Support and Value Added Services at 3M EM for nearly 5 years. Prior to 3M EM, he served in various Global Telecommunication companies (Veraz Networks, ECI Telecom, VocalTec). Mr. Shemesh holds Master's Degree (M.A) in Law, B.A in Management and P.E in Electronics.

B. Compensation

The aggregate amount of compensation paid by us to our board members and executive officers (collectively, the "Named Executive Officers") as a group for the year ended December 31, 2012 was approximately $465,000. This sum includes amounts paid for salary and social benefits. In addition, we have provided automobiles to our certain executive officers at our expense.

As of the date of this Annual Report the monthly fee of a director (other than our Chairman of the Board) is $1,500 and the monthly fee of an external director is approximately $642 plus approximately $490 for every board or audit committee meeting.

As of December 31, 2012 , we had set aside approximately $44 to provide pension, retirement or similar benefits for our certain executive officers.

Option/SAR Grants during the Year Ended December 31, 2012

No options were granted during the year 2012. Please refer to the Section captioned “Share Option Plan” under Item 6.E below for a description of our Share Options Plan.

C. Board Practices

Our Board of Directors and senior management consider 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 the directors were first elected or appointed:

Name	**Position**	**Period Served in Office**	**Date of Expiration of Current Term (if applicable)**
Tsviya Trabelsi	Director Chairman of the Board	November 15, 2012 – present	Next annual general meeting
Avi Ayash	External Director	December 8, 2011 - present	December 8, 2014
Shlomit Sarusi	External Director	December 27, 2012 – present	December 27, 2015
David Mimon	Director	July 25, 2010 – present	Next annual general meeting
Menachem Mirski	Director	July 25, 2010 – present	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. The 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 (discussed below). Our Articles of Association provide further 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 Mrs. Shlomit Sarusi, who shall hold office until December 2015, and Mr. Ayash, who shall hold office until December 2014.

External directors . The Israeli 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 Israeli 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 Israeli 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 Israeli Companies Law. However, Israeli companies listed on certain stock exchanges outside Israel, including The NASDAQ Global Market, such as our company, 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 simple majority of the shares voted by shareholders other than controlling shareholders or shareholders who have a personal interest in the election of the outside director (unless such personal interest is not related to such persons 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 outside director represent 2% or less of the voting rights in the company.

In general, under the Israeli 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, including The NASDAQ Global Market, such as our company, 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 Israeli 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.

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 Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

Audit Committee

Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee. 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 consecutive nine 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). The audit 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.

The responsibilities of the audit committee include, among others, identifying irregularities in the management of the company's business, approving related party transactions as required by law, review of the internal controls of the company, the internal auditor's audit plan and the independent auditor's engagement and compensation. The audit committee is also required to establish and monitor whistleblower procedures. Under Israeli 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 in which an approval was granted.

Mrs. Sarusi, Mr. Ayash and Mr. Mirski are the members of the Audit Committee.

Compensation Committee

Pursuant to a new amendment to the Israeli Companies Law, effective as of December 12, 2012, each publicly traded company is required to establish a compensation committee which should make recommendations to the board of directors and the shareholders with respect to compensation policy of directors and officers of the company. 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. We have established a compensation committee that is currently composed of Mrs. Sarusi, Mr. Ayash and Mr. Mirski **.**

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.

Internal Auditor

Under the Israeli 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 Israeli 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 Shmuel Naiberg, who is a partner at Shiff Hazenfratz & Co., as our internal auditor.

D. Employees

As of December 31, 2012, 2011 and 2010, we had 19, 14 and 17 full-time employees, respectively (not including service providers). The following table describes our employees and the employees of our subsidiaries by department.

	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2010**
Research, Development & Manufacturing	12	7	9
Marketing and Sales	2	2	3
Administration	5	5	5
Total	**19**	**14**	**17**

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

	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2010**
Israel & Europe	17	10	11
United states	2	4	6
Total	**19**	**14**	**17**

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.

SuperCom's 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

The following table sets forth the ordinary shares beneficially owned by each of our directors who beneficially owned more than 1% of our issued ordinary shares as of April 1, 2013. As of April 1, 2013, we had 37,184,961 ordinary shares outstanding.

Name	**Ordinary Shares beneficially held**	**% of Outstanding Ordinary Shares as of April 1, 2013**	**Number of outstanding convertible securities**	**Exercise price**	**Expiration date**
Tsviya Trabelsi (1)	16,982,654 (2)	45.67%			
Menachem Mirski	673,317 (3)	1.81%	-	-	-
Directors and Named Executive Officers as a Group	17,665,971	47.51%	10,000 (4)	0.20	<u>Options:</u> December 2017

(1) Consists of securities beneficially held by Sigma Wave Ltd., or Sigma. Sigma is controlled by her and her family members of Mrs. Tsviya Trabelsi, our Chairman of the Board. As such, Mrs. Trabelsi may be deemed to beneficially own the shares held by Sigma.

(2) Includes (i) 8,957,654 ordinary shares held by Sigma, and (ii) 8,025,000 ordinary shares held by Mr. David Mimon as trustee for Sigma. Mr. Mimon is one of our directors and the brother of Mrs. Tsviya Trabelsi.

(3) Consist of 692,660 ordinary shares held by Homeland Security Capital Corporation ("HSCC"), which granted an irrevocable power of attorney to our Chairman of the Board to exercise 673,317 shares voting rights relating to our ordinary shares until the sale or transfer of such shares by HSCC to an unaffiliated third party in an arm's-length transaction, which, according to our Board resolution from March 29, 2011, were transferred to Mr. Menachem Mirski.

(4) Includes options to purchase 10, 000 ordinary shares which are currently exercisable

(5) See notes 1 and 2 for the beneficial ownership of Mrs. Tsviya Trabelsi, our Chairman of the Board and Note 3 for the beneficial ownership of Mr. Menachem Mirski, our director. Each of the directors and executive officers not separately identified in the above table beneficially owns less than 1% of our outstanding ordinary shares (including options held by each such party, and which are exercisable) and has therefore not been separately disclosed.
All of our ordinary shares have identical voting rights.

Share Option Plans

In 2003, we adopted the SuperCom Ltd. 2003 Israeli Share Option Plan, a new stock option plan under which we now issue stock options (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 Israeli 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 option, which are forfeited or canceled before expiration, become available for future grants. As of December 31, 2012; 393,047 options were exercisable and 548,047 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 new option plan, we may grant both qualified (for preferential tax treatment) and non-qualified stock options. On August 15, 2007, the new option plan was approved by our shareholders at the general shareholders meeting.

On August 9, 2011, we issued fully vested options to purchase up to 150,000 of our ordinary shares to Ron Peer, a former Chief Executive Officer as part of his employment agreement. The options (the fair value of which was estimated to be $6,000 based upon the Black-Scholes option pricing model) have an exercise price of $0.11 per share, and will expire five years from the date of grant. Also, 300,000 ordinary shares were issued to Mr. Peer as consideration to settle liability to the said former Chief Executive Officer.

On August 11, 2011, we issued fully vested options to purchase up to 300,000 of our ordinary shares to a former officer as part of the Creditor Arrangement (see also Item 4.A). The options (the fair market value of which was estimated to be $36,000, based upon the market price of our shares on the date when the extinguishment was determined) have an exercise price of $0.00. All the 300,000 options were exercised in December 2012, by the former officer.

On August 24, 2011, we issued options to purchase up to 385,000 of our ordinary shares to our certain employees. The options (the fair value of which was estimated to be $18,000 based upon the Black-Scholes option pricing model) have an exercise price of $0.20, 230,000 of them vested during 2012, and the remaining 155,000 will vest on January 1, 2013. The options have a term of ten years from the date of grant.

No options were issued during the year 2012.

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

	Year ended December 31					
	2012		2011		2010	
	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	2,163,857	0.79	1,404,219	1.23	1,489,176	1.34
Granted	-	-	835,000	0.11	-	-
Exercised	(342,121)	0.00	(10,007)	0.02	(11,007)	0.016
Canceled and forfeited	(1,273,689)	1.61	(65,355)	1.74	(73,950)	3.52
Outstanding at end of year	548,047	0.97	2,163,857	0.79	1,404,219	1.23
Exercisable at end of year	393,047	1.27	1,778,857	0.92	1,404,219	1.23

The weighted average fair value of options granted during the reported periods (excluding options exercisable for 300,000 of our ordinary shares granted in 2011 as part of the extinguishment of liabilities) was $0.05, per option, for the years ended December 31, 2011. No options were granted in 2010 and 2012

In 2011, 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 2011 grants: risk-free rate of 0.76%, dividend yield of 0%, expected volatility factor of 176.54%, and expected term of 4.64 years.

The expected volatility was based on the historical volatility of our stock. The expected term was based on the historical experience and based on management estimate.

We recognized Compensation expenses recognized by the Company related to its share-based employee compensation awards were $7, $10, and $14 for the years ended December 31, 2012, 2011 and 2010, respectively.

The following table summarizes the allocation of the stock-based compensation charge

	Year ended December 31,		
	2012	**2011**	**2010**
	$	**$**	**$**
Cost of revenues	1.5	2	3
Research and development expenses	4	5	2
Selling and marketing expenses	-	-	3
General and administrative expenses	1.5	3	6
	7	10	14

The options outstanding and exercisable as of December 31, 2012, have been separated into ranges of exercise prices as follows:

Range of exercise price	**Options outstanding as of December 31, 2012**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Aggregate intrinsic value**	**Options exercisable as of December 31, 2012**	**Weighted average exercise price**	**Aggregate intrinsic value**
$							
$0.00 - 0.20	445,997	6.74	0.15	-	290,997	0.13	-
$2.47 - 3.38	14,450	1.24	3.06	-	14,450	3.06	-
$4.12 - 4.64	42,400	3.94	4.44	-	42,400	4.44	-
$5.00 - 5.24	45,200	2.08	5.10	-	45,200	5.10	-
	548,047		0.97		393,047	1.27	

The total intrinsic value of options exercised during the years ended December 31, 2012 2011 and 2010 was $0, $1, and $1, respectively, based on the Company's average stock price of $ 0.14, $0.10, and $0.14, during the years ended on those dates respectively.

A summary of the status of the Entity's non-vested options granted to employees as of December 31, 2012 and changes during the year ended December 31, 2012 is presented below:

	Options	Weighted–average grant-date fair value
Non-vested at January 1, 2012	385,000	$ 0.05
Granted		
Vested (including cancelled and exercised)	(230,000)	0.05
Forfeited	-	-
Non-vested at December 31, 2012	155,000	$ 0.05

As of December 31, 2012, there was $3 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 April 1, 2013 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 April 1, 2012, - 37,184,961 of our ordinary shares were outstanding.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder or is based on the most recent Schedule 13D or 13G filed with the SEC. 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 convertible bonds, options and warrants exercisable within 60 days of April 1, 2013, and deemed to be outstanding and beneficially owned by the person holding those bonds, 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. None of the following major shareholders have different voting rights from the other holders of our ordinary shares.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Outstanding
Sigma Wave Ltd. (1)	16,982,654	45.67%
Eliyahu Trabelsi(2)	3,393,052	9.12%

(1) Sigma is controlled by family members of Mrs. Tsviya Trabelsi, our Chairman of the Board and by her. As such, Mrs. Trabelsi may be deemed to beneficially own the shares held by Sigma. Includes (i) 8,957,654 ordinary shares held by Sigma, and (ii) 8,025,000 ordinary shares held by Mr. David Mimon as trustee for Sigma. Mr. Mimon is one of our directors and the brother of Mrs. Tsviya Trabelsi.

(2) Includes (a) 3, 393, 052 ordinary shares. Mr. Eliyahu Trabelsi is the brother of Mr. Arie Trabelsi and is disclaiming beneficial ownership of Mr. Arie Trabelsi' shares.

As of April 1, 2013, based on the information available to us, we had in the United States approximately 22 registered holders of our ordinary shares, representing approximately 15% of our total ordinary shares registered at that 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.

On July 8, 2010, the Board of Directors accepted the resignation from the board of directors of the Chairman of the Board of Directors, effective July 25, 2010. We recorded during 2010 an expense of $75 related to the former consulting agreement. In addition, on July 8, 2010, we entered into a Services Agreement with the former Chairman of the Board of Directors and as of that date one of the Company's major shareholders (the "Service Provider"), effective immediately, pursuant to which the parties terminated the former consulting agreement and agreed that the Service Provider will provide the Company with ongoing consulting services as may be reasonably required by the Company, for a consideration of 2% of the Company's gross receipts from a major customer and indemnification of reasonable costs and expenses incurred by the Service Provider.

During 2012, 2011 and 2010, we recorded an expense of $ 24, $130 and $83, respectively, in accordance with the Services Agreement, which was terminated On July 7, 2012

On July 8, 2010, the Board of Directors accepted the resignation from the board of directors of the member of the Company's Board of Directors, effective immediately. The Company recorded during 2010 an expense of $53 related to the former consulting agreement. In addition, on July 8, 2010, we entered into a Services Agreement with the former member of the Board of Directors and as of that date one of the Company's major shareholders (the "Service Provider"), effective immediately, pursuant to which the parties terminated the former consulting agreement and agreed that the Service Provider will provide the Company with management services with respect to the Company's certain project for a consideration of (i) a monthly fee of $3, (ii) indemnification of reasonable costs and expenses incurred by the Service Provider, and (iii) the Company will provide the Service Provider with a cellular phone and an automobile. We shall also grant the Service Provider options to purchase up to 50,000 ordinary shares of the Company according to terms to be determined by the Board of Directors, which terms have not yet been determined by the date of approval of the financial statements.

During 2012, 2011 and 2010, the Company recorded an expense of $18, $63 and $38, respectively, in accordance with the Services Agreement, which was terminated On July 7, 2012.

The Company recorded during 2010 an expense of $37 related to the former consulting agreement. On July 8, 2010, the Company entered into a Services Agreement with the co-founder of the Company and as of that date one of the Company's major shareholders (the "Service Provider"), effective immediately, pursuant to which the parties terminated the former consulting agreement and agreed that the Service Provider will provide the Company with ongoing consulting services as may be reasonably required by the Company for a consideration of a monthly fee of $3 and indemnification of reasonable costs and expenses incurred by the Service Provider in connection with the services. The Company shall also grant the Service Provider options to purchase up to 100,000 ordinary shares of the Company according to terms that will be determined by the Board of Directors, which terms have not yet been determined by the date of approval of the financial statements.

During 2012, 2011 and 2010, the Company recorded an expense of $19, $39 and $21, respectively, in accordance with the Services Agreement which was terminated On July 7, 2012

As part of the Debt to Equity Conversion plan of the Company and in accordance with their Services Agreement, the abovementioned Service Providers agreed to a partial forgiveness of the debts due to them under the former consulting agreements accrued from October 1, 2009 until July 8, 2010 which total amount was $245 and agreed to repayment in 1,083,071 warrants to purchase ordinary shares of the Company as consideration for the entire debts due. The fair value of the warrants was estimated as $130. The difference between the carrying amount of the amounts due and the fair value of the warrants was recognized as a capital gain. During 2012, 712,808 warrants were exercised.

On July 25, 2010, the Board of directors of the Company elected Mrs. Tsviya Trabelsi to serve as the Chairman of the Board of Directors. 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 and the sister of one of the members of the Company's board of directors. On May 12, 2011, the special general meeting approved the Service Agreement of the Company's chairman of the board of directors whereby, her monthly fee will be calculated every month at 60% of the Company's chief executive officer's monthly cost. In addition to the above consideration, the Company shall 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 from the board 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. The general Assembly on December 27, 2012, approved the appointment of Mrs. Tsviya Trabelsi as its new Chairman, Her management services fees are subjected to the approval of the next general meeting and are expected to be the same as those approved by the general assembly on May 2011

Mr. Trabelsi has served as the chief executive officer of the Company from November 1, 2010 until November 12, 2011, and from June 1, 2012, and has served as the chairman of the Company's board from December 12, 2011. Mr. Arie Trabelsi is a director of Sigma Wave Ltd., which is the controlling shareholder of us; His employment agreement is subjected to the approval of the next general meeting.

As of December 31, 2012, we accrued $226 as expenses arising from all related parties providing consulting services.

On April 29, 2012, our board of directors approved the recording of a floating charge on all of our assets in favor of Mrs. Tsviya Trabelsi and Mr. Arie Trabelsi, unlimited in amount, in order to secure personal guarantees granted by them in favor of us, such as to a bank (see Item 4.A. under the caption "Recent Developments") and in order to secure short-term loans that are given by them from time to time to us

Regarding transactions with a convertible bond holder, Sigma, see Items 4A and 5B

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. *Financial Information.*

A. Consolidated Statements and Other Financial Information

See Item 18.

Export Sales

Sales in Israel during each of the years 2012, 2011 and 2010 was $86,000, $80,000 and $83,000, respectively. Export sales during each of the years 2012, 2011 and 2010 was $8,854,000 (99% of the total sales volume), $7,842,000 (99% of the total sales volume) and $7,306,000 (99% of the total sales volume), respectively.

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.

(A) In April 2004, the Department for Resources Supply of the Ministry of Ukraine (the "Department") filed with the International Commercial Arbitration Court at the Ukrainian Chamber of Commerce and Industry (the "Arbitration Court") a claim to declare Contract No. 10/82 (the "Contract"), dated April 9, 2002, between us and the Ministry of Internal Affairs of Ukraine (the "Ministry") void due to defects in the proceedings by which we were awarded the Contract. In July, 2004, the Arbitration Court declared the Contract void. On April 27, 2005, we appealed the decision in the High Commercial Court of Ukraine. In May, 2005, the Department filed with the Arbitration Court a new statement of claim for restitution of $1,047,740, paid to us by the Department under the Contract. On September 27, 2005, we received a negative award issued by the Arbitration Court in the second claim (the "Award"). On December 12, 2005, we were informed that the Supreme Court of Ukraine had dismissed our appeal regarding the July, 2004 decision. On June 29, 2006, the Supreme Court of Ukraine held that the Arbitration Court award was valid and legal under applicable law.

On September 28, 2008, the Department filed a petition (the "Petition") in the Central District Court of Israel (the "Court"), under which the Department requested the approval of the Award as a valid foreign arbitral award under the laws of the State of Israel.

During November 2008, we filed with the Court an objection to the Petition and a petition to declare the Award null and void. Our objection and petition rely on what we believe to be well-based evidence that we have against the manner under which the arbitration proceedings were conducted by the Arbitration Court and against their validness and legality. We believe that the arbitration proceedings were conducted partially and jeopardized our basic rights. Our claims are also corroborated by a contrary legal opinion written in the arbitration decision by one of the arbitrators ("Arbitrator").

On February 16, 2009 the Department filed its response to our claims (the "Response"). The Department raised in its Response procedural and other claims, including a claim that we filed in Ukraine a monetary claim which is based on the Award and the filing of such claim basically affirms our acknowledgment that the Award is valid. On March 25, 2009, we filed a response to the Department's response and a requisition to order the Arbitrator to testify in the scope of the Petition proceedings.

On June 6, 2009, a preliminary court session was held regarding the Petition. During the session, the Department's counsel claimed that one of the two machines that we previously supplied pursuant to the Contract (which machine is priced higher than the amount of the Department's claim), was not supplied to the Department and was transferred by us to another Ukrainian governmental authority. It is noted that we have documents that evidence that, contrary to the Department's claim, we supplied both of the machines directly to the Department.

At a hearing held on September 23, 2009, the Court accepted our application to summon the Arbitrator as a witness. At the hearings which took place on November 29 and November 30, 2010, the Arbitrator testified in Court. In his testimony the Arbitrator described procedural flaws which occurred, in his view, during the arbitration and also related to threats which were made against him by the Secretary of the Ukrainian Chamber of Commerce and Industry in the course of the arbitration session.

Following the testimony of the Arbitrator, the Department asked the Court to summon the other two Ukrainian arbitrators as witnesses. The Court accepted the request and scheduled hearings for their testimonies in 2011. However, the Department's witnesses (including the other two Ukrainian arbitrators) did not appear in court at the times scheduled for their testimonies. In light thereof, the Court ordered that summations be submitted in writing without having the witnesses of the Department testify.

On December 5, 2011 we submitted a summation in writing. However, the Department has not submitted its summation and its counsel even notified the Court that his appointment as the Department's counsel had been cancelled. In these circumstances we filed a petition for judgment due to the absence of summations by the Department. On February 26, 2012, the Court ruled that it accepts our petition to give judgment due to the lack of summations on behalf of the Department and that the file will be assigned for writing a judgment on the basis of the evidence that had been presented to the Court in the course of the proceeding.

On April 15, 2012, the Court dismissed the Department's Petition and also declared the Award null and void.

(B) On October 30, 2003, SuperCom Slovakia, a subsidiary (66%) of SuperCom Ltd., received an award from the International Arbitral Centre of the Austrian Federal Economic Chamber ("IAC"), in a case against the Ministry of Interior of the Slovak Republic relating to the agreement on delivery of Technology, Cooperation and Services signed on March 17, 1998. Upon the Arbitral Award, the Ministry of Interior of the Slovak Republic was ordered to pay SuperCom Slovakia the amount of SKK 80,000,000 (approximately $3,438,000 as of December 31, 2011) plus interest accruing from March, 1999. In addition, the Ministry of Interior of the Slovak Republic was ordered to pay the costs of arbitration in the amount of EUR 42,716 (approximately $55,000 as of December 31, 2011) and SuperCom Slovakia's legal fees in the amount of EUR 63,611 (approximately $82,000 as of December 31, 2011). We have begun an enforcement proceeding to collect the arbitral award. The Ministry of Interior of the Slovak Republic filed a claim with the Commercial Court in Vienna, Austria on February 10, 2004, whereby it challenged and requested to set aside the arbitral award. During September, 2005, the commercial court of Vienna dismissed the claim. On October 21, 2005, the Ministry of the Interior of the Slovak Republic filed an appeal. On August 25, 2006, the Austrian Appellate Court rejected the appeal and ordered the Ministry to reimburse Supercom Slovakia´s costs of the appellate proceeding in the amount of EUR 6,688 within 14 days. On October 3, 2006, we were informed that the Ministry had decided not to file an extraordinary appeal to the Austrian Supreme Court's decision rejecting its appeal. To date, our efforts to enforce the Commercial Court's decision have been unsuccessful.

(C) On December 16, 1999, Secu-Systems Ltd. (“Secu-systems”) filed a lawsuit with the District Court in Tel-Aviv-Jaffa jointly and severally against us and InkSure Ltd. (“InkSure”) (our former subsidiary, which became a subsidiary of InkSure Technologies, Inc.) seeking a permanent injunction and damages arising from the printing method applied to certain products developed by Inksure. In its lawsuit, Secu-systems asserted claims of breach of a confidentiality agreement between Secu-systems and us, unjust enrichment by us and InkSure, breach of fiduciary duties owed to Secu-systems by us and InkSure, misappropriation of trade secrets by us and InkSure, and damage to Secu-systems’ property. On March 15, 2006, the Court denied the breach of contract claim, but upheld the claim for misappropriation of trade secrets and ordered InkSure and us to cease all activity involving the use of the confidential knowledge and/or confidential information of Secu-systems. In addition, the Court ordered us and Inksure to provide a report certified by an accountant setting forth in full the income and/or benefit received by InkSure and us as a result of the misappropriation activity through the date of the judgment, and ordered us and Inksure, jointly and severally, to pay to Secu-systems compensation in the sum of NIS 100,000 ($26,000 as of December 31, 2011) and legal expenses as well as attorney’s fees in the sum of NIS 30,000 ($8,000 as of December 31, 2011). Secu-systems has filed an appeal, and we and InkSure filed a counter-appeal, on the ruling above.

During the years thereafter several Court sessions were held, judgments were made and appeals were filed by each of the parties.

On December 15, 2009, the Court suggested that the parties attempt to resolve this dispute through mediation. All of the parties agreed to mediate the matter.

In the course of the mediation process, during 2010, an agreement in principle was reached, according to which the mediator will be authorized to determine the sum, within the range between NIS 750,000 (approximately $196,000 as of December 31, 2011) and NIS 1,000,000 (approximately $262,000 as of December 31, 2011), which we shall pay to Secu-Systems. Pursuant to such agreement in principle, the amount determined by the mediator will be paid by us during 2011 in 10 equal, consecutive monthly installments.

Following the said agreement in principle, a binding mediation agreement was signed by the parties, and on September 1, 2010, a mediation session was held. On November 30, 2010, the mediator determined that the sum we will have to pay to Secu-System is NIS 893,000 (approximately $239,000 as of December 31, 2012). On January 30, 2012, the parties submitted to the Court a request to approve the mediation agreement. The mediation agreement was approved by the Court on February 5, 2012. During 2011 and 2012 we have paid in full our obligation in total amount of NIS 893,000 (approximately $239,000 as of December 31, 2012).

As of December 31, 2012 there is no liability related to this litigation, and the litigation is closed.

(D) On May 7, 2012, a supplier of us filed a lawsuit with the Magistrate Court in Tel Aviv in the amount of NIS 360,199 (approximately $96 as of December 31, 2012) claiming mainly for payments of products which were supplied during 2011 and for payments for products which were purchased by the supplier but were refused to be received by us due to our dissatisfaction in respect of the supplied products. We are denying the supplier’s claims and have our own claims against the supplier in respect of the quality of the products supplied by him. We had filed with the Court an objection to the Claim and a petition for a recovery by the supplier of the Company direct loses due to the supplier lack of performance. Our objection and petition rely on what we believes to be well-based evidence which we have against the Supplier lack of performance, major delays in delivery of products, and poor workmanship with some of the products manufactured by the supplier. A preliminary court session was held regarding the Petition, and additional court sessions are scheduled for July 2013. The balance of accounts payable with respect to the supplier as of December 31, 2012 is approximately $46, which represents the value of the supplied products during 2011. No additional provision has been recognized with respect to the supplier's claim.

Dividend Policy

Under the Israeli Companies Law, dividends may only be paid out of profits legally available for 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. In addition, a competent court may approve, as per a motion to be filed by a company in accordance with the Israeli Companies Law requirements, a payment which does not meet the profits test, provided that the court was convinced that there is no reasonable concern that such payment will prevent the company from satisfying its existing and foreseeable obligations as they become due. If we do not pay dividends, our ordinary shares may be less valuable because a return on your investment will only occur if our share price appreciates.

In accordance with our Articles of Association, our Board of Directors may from time to time declare and cause the Company to pay to the shareholders such interim or final dividends as the Board of Directors deems appropriate considering the profits of the Company and in compliance with the provisions of the Israeli Companies Law.

Subject to the rights of the holders of shares as to dividends, and to the provisions of our Articles of Association, dividends, whether in cash or in bonus shares, shall be paid or distributed, as the case may be, to shareholders pro rata to the amount paid up or credited as paid up on account of their shares, without taking into consideration any premium paid thereon.

B. Significant Changes

There are no significant changes that occurred since December 31, 2012, except as otherwise disclosed in this Annual Report and in the annual consolidated financial statements included in this Annual Report.

ITEM 9. *The Offer and Listing .*

A. Offer and Listing Details

The tables included below set forth information regarding the price history of the ordinary shares on the Euronext Brussels stock market and the OTC Bulletin Board/NASDAQ/ OTC Market for the periods indicated.

We commenced trading on the NASDAQ Europe stock market on April 19, 1999. On October 23, 2003, following the closing of the NASDAQ Europe stock market, we transferred the listing of our shares to Euronext Brussels stock market where we traded under the symbol “VUNC.” 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.

Our ordinary shares were quoted on the OTC Bulletin Board Market under the symbol “VUNC.OB,” from November 5, 2004 until August 22, 2007.

Our ordinary shares were approved for listing on the NASDAQ Capital Market and began trading effective August 23, 2007. The shares were traded on NASDQ 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) (formerly Marketplace Rule 4310(c)(3)). As a result, our securities were delisted from The Nasdaq Stock Market and trading in our shares was suspended effective at the open of business on October 1, 2009.

Following the delisting from the NASDAQ, as of the open of business on October 1, 2009, we had been advised by OTC Markets Inc., which operates an electronic quotation service for securities traded over-the-counter, that our securities were immediately eligible for quotation in the OTC. Our ordinary shares are currently quoted under the ticker symbol “SPCBF”, after a ticker changed approved on March 18,2013.

The following table shows, for the periods indicated, the high and low closing prices of our ordinary shares in U.S. dollars as reported on the NASDAQ Europe stock market or the Euronext Brussels stock market, as applicable until August 4, 2008 (conversion to U.S. dollars is based on the exchange rate published by the Bank of Israel). The following table also shows, for the periods indicated, the high and low closing prices of our ordinary shares on the OTC Market or OTC Bulletin Board Market or NASDAQ, as applicable.

The Company has not issued any securities in connection with a pre-emptive issue.

Period	European Market Per share ($)		US Market Per share ($)	
	High	Low	High	Low
Annual				
2008	3.90(1)	2.40(1)	4.69	0.29
2009	N/A	N/A	0.68	0.20
2010	N/A	N/A	0.29	0.05
2011	N/A	N/A	0.14	0.04
2012	N/A	N/A	0.20	0.01
Financial quarters				
20 11				
First quarter	N/A	N/A	0.13	0.06
Second quarter	N/A	N/A	0.14	0.04
Third quarter	N/A	N/A	0.12	0.04
Fourth quarter	N/A	N/A	0.12	0.05
201 2				
First quarter	N/A	N/A	0.17	0.02
Second quarter	N/A	N/A	0.20	0.04
Third quarter	N/A	N/A	0.20	0.01
Fourth quarter	N/A	N/A	0.17	0.01
2013				
First quarter	N/A	N/A	0.4	0.05
Most recent six months				
March 2013	N/A	N/A	0.44	0.06
February 2013	N/A	N/A	0.11	0.06
January 2013	N/A	N/A	0.14	0.05
December 2012	N/A	N/A	0.15	0.01
November 2012	N/A	N/A	0.15	0.03
October 2012	N/A	N/A	0.17	0.01

On April 5, 2013, the last reported sale price of our ordinary shares on OTC was $0.32 per share.

Lack of Liquidity

The delisting of our ordinary shares from the NASDAQ market significantly affects the ability of investors to trade our securities and negatively affects the liquidity of our ordinary shares. In addition trading in our ordinary shares may become subject to the "penny stock" regulations adopted by the SEC. These regulations generally define a "penny stock" to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions, such as if the issuer of the security has net tangible assets in excess of $2,000,000. The market price of our ordinary shares is currently less than $5.00 per share and our net tangible assets as of December 31, 2012 were approximately $3,743,000. While we believe that our ordinary shares are currently exempt from the definition of penny stock, there is no assurance that they will continue to be exempt from such definition. If our ordinary shares become subject to the “penny stock” rules of the SEC, it will make transactions in our ordinary shares cumbersome and may reduce the value of our shares. This is because for any transaction involving a penny stock, unless exempt, Rule 15g-9 generally requires:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written statement from the investor prior to the transaction.

Disclosure also has to be made by the broker or dealer about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our ordinary shares and cause a decline in our market value if we were to become subject to the said "penny stock" rules.

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares were listed for trade on the Euronext Brussels stock market, from October 23, 2003 under the symbol “SUP,” which became “VUNC” after our corporate name change on May 14, 2007. 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.

Since November 5, 2004, our ordinary shares have also traded on the OTC Bulletin Board under the symbol "SPCBF.OB," which, following our then name change became “VUNCF.OB.” Since August 23, 2007, our ordinary shares were approved for trading on NASDAQ under the symbol “VUNC” and the trade on the OTC Bulletin Board ceased. On October 1, 2009 our ordinary shares started being quoted under the ticker symbol “VUNCF” on the OTC Market. which, following our recent name change became “SPCBF"

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 52,000,000 ordinary shares par value NIS 0.0588235 per share, of which 37,184,961 ordinary shares were outstanding as of April 1, 2013.

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 this Article "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 recent amendments to 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 the 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 the 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 a shareholder of the company shareholder which controls 25% or greater of the company's voting rights, or (iii) was from a shareholder holding a 45% of the voting 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

Except for the material contracts described in Item 4 – Recent Developments, in Item 5 – Liquidity and Capital Resources and in Item 6 - Compensation, we are not a party to any other material contracts outside of the ordinary course of business.

D. Exchange Controls

Pursuant to a general permit issued in 1998 by the Israeli Controller of Foreign Exchange under the Currency Control Law, 1978 (the "Currency Control Law"), there are virtually no restrictions on foreign exchange in the State of Israel, except for certain reporting obligations.

E. Taxation

To the extent that the following discussion is based on new or existing tax or other legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed herein will be accepted by the tax or other authorities in question. This discussion is not intended, nor should it be construed, as legal or professional tax advice and it is not exhaustive of all possible tax considerations.

Israeli Taxation

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 SuperCom’s 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 25% for the 2012 and 2013 tax years. Following an amendment to the Israeli Income Tax Ordinance, 1961 (the "Tax Ordinance"), which came into effect on January 1, 2012, the corporate tax rate is scheduled to remain at the rate of 25% for future tax years.

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.

<u>Israeli residents</u> :

Individuals:

Commencing in January 1, 2012, a real capital gain deriving to an individual will be taxed at a rate of 25%, on condition that the income is not classified as business income from the vantage point of the individual. This will apply to the entire real capital gain accrued since the date of purchase, or since January 1, 2003 if the purchase preceded that date.
Notwithstanding the above, the real capital gain will be taxed at a rate of 30% in the following instances:

1. The individual deducts interest expenses and linkage differentials.
2. The seller is a "significant shareholder" at the date of the sale of the securities or at any time during the 12-month period preceding the sale. A "significant shareholder" is defined in general as shareholder who holds, either directly or indirectly, alone or together with another, at least 10% of any form of a means of control in a company. The term "together with another" means together with a relative, or together with someone who is not a relative with which the individual, either directly or indirectly, has a regular cooperative agreement regarding the affairs of the company.

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 (25% for the 2012 tax year onwards).

<u>Non-Israeli residents:</u>

In general, Non-residents of Israel will be exempt from capital gain tax in relation to the sale of ordinary shares traded on a recognized stock exchange as long as (a) the capital gain is not in his permanent establishment in Israel, (b) the ordinary shares in relation to which the capital gains are derived were acquired by the nonresident after the initial listing of the ordinary shares and (c) neither the shareholder nor the capital gain is subject to certain sections of the Israeli income tax ordinance.

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, pursuant to the Income Tax Treaty between Israel and the U.S. (the “Tax Treaty”), gains derived from the sale, exchange or disposition of our ordinary shares by a person who qualifies as a resident of the U.S. within the meaning of the Tax Treaty and who is entitled to claim the benefits afforded to US residents under the Tax Treaty, referred to as a Treaty US Resident, would not be subject to Israeli capital gains tax, unless such US Resident owned, directly or indirectly, shares representing 10% or more of the voting power of our company at any time during the 12-month period preceding such sale, exchange or disposition.

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

General

The following is a summary of the material U.S. federal income tax consequences of the ownership and disposition of our ordinary shares and warrants. The following discussion is not exhaustive of all possible tax considerations. This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), regulations promulgated under the Code by the U.S. Treasury Department (including proposed and temporary regulations), rulings, current administrative interpretations and official pronouncements of the Internal Revenue Service (the "IRS"), and judicial decisions, all as currently in effect and all of which are subject to differing interpretations or to change, possibly with retroactive effect. Such change could materially and adversely affect the tax consequences described below. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below.

This discussion does not address state, local, or foreign tax consequences of the ownership and disposition of ordinary shares and warrants (see "Israeli Taxation" above).

This summary is for general information only and does not address all aspects of the U.S. federal income taxation that may be important to a particular holder in light of its investment or tax circumstances or to holders subject to special tax rules, such as: banks; financial institutions; insurance companies; dealers in stocks, securities, or currencies; traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; tax-exempt organizations; real estate investment trusts; regulated investment companies; qualified retirement plans, individual retirement accounts, and other tax-deferred accounts; expatriates of the U.S.; persons subject to the alternative minimum tax; persons holding ordinary shares or warrants as part of a straddle, hedge, conversion transaction, or other integrated transaction; persons who acquired ordinary shares or warrants pursuant to the exercise of any employee stock option or otherwise as compensation for services; persons actually or constructively holding 10% or more of our voting stock; and U.S. Holders (as defined below) whose functional currency is other than the U.S. dollar.

This discussion is not a comprehensive description of all of the U.S. federal tax consequences that may be relevant with respect to the ownership and disposition of our ordinary shares and warrants. We urge you to consult your own tax advisor regarding your particular circumstances and the U.S. federal income and estate tax consequences to you of owning and disposing of our ordinary shares and warrants, as well as any tax consequences arising under the laws of any state, local, or foreign or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws.

This summary only addresses ordinary shares and warrants that are held as capital assets within the meaning of Section 1221 of the Code, which generally means as property held for investment, and were acquired upon original issuance at their initial public offering price. For purposes of this discussion, the term "U.S. Holder" means a beneficial owner of our ordinary shares and warrants that is any of the following:

- a citizen or resident of the U.S. or someone treated as a U.S. citizen or resident for U.S. federal income tax purposes;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S., any state thereof, or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source;
- a trust if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust; or
- a trust in existence on August 20, 1996 that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

The term "Non-U.S. Holder" means a beneficial owner of our ordinary shares and warrants that is not a U.S. Holder. As described in "Taxation of Non-U.S. Holders" below, the tax consequences to a Non-U.S. Holder may differ substantially from the tax consequences to a U.S. Holder.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ordinary shares and warrants, the U.S. federal income tax consequences to a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. A holder of our ordinary shares and warrants that is a partnership and the partners in such partnership should consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of our ordinary shares and warrants.

Taxation of U.S. Holders

The discussion in "Distributions on Ordinary Shares" and "Dispositions of Ordinary Shares or Warrants" below assumes that we will not be treated as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. For a discussion of the rules that apply if we are treated as a PFIC, see the discussion in "Passive Foreign Investment Company" below.

Distributions on Ordinary Shares

General. Subject to the discussion in "Passive Foreign Investment Company" below, if you actually or constructively receive a distribution on ordinary shares, you must include the distribution in gross income as a taxable dividend on the date of your receipt of the distribution, but only to the extent of our current or accumulated earnings and profits, as calculated under U.S. federal income tax principles. Such amount must be included without reduction for any Israeli tax withheld. Dividends paid by us generally will not be eligible for the dividends received deduction allowed to corporations with respect to dividends received from certain U.S. corporations. Dividends paid by us may or may not be eligible for preferential rates applicable to qualified dividend income, as described below.

To the extent a distribution exceeds our current and accumulated earnings and profits, it will be treated first as a non-taxable return of capital to the extent of your adjusted tax basis in the ordinary shares, and thereafter as capital gain. Preferential tax rates for long-term capital gain may be applicable to non-corporate U.S. Holders.

We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

Qualified Dividend Income. With respect to non-corporate U.S. Holders (i.e., individuals, trusts, and estates), for taxable years beginning on or before December 31, 2012, dividends that are treated as qualified dividend income ("QDI") are taxable at a maximum tax rate of 15%. Among other requirements, dividends generally will be treated as QDI if either (i) our ordinary shares are readily tradable on an established securities market in the U.S., or (ii) we are eligible for the benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and which is determined to be satisfactory by the U.S. Treasury. For example, it is expected that our ordinary shares will be "readily tradable" if as a result of being listed on The NASDAQ Capital Market.

In addition, for dividends to be treated as QDI, we must not be a PFIC (as discussed below) for either the taxable year in which the dividend was paid or the preceding taxable year. We do not believe that we will be a PFIC for our current taxable year. However, please see the discussion under "Passive Foreign Investment Company" below. Additionally, in order to qualify for QDI treatment, you generally must have held the ordinary shares for more than 60 days during the 121-day period beginning 60 days prior to the ex-dividend date. However, your holding period will be reduced for any period during which the risk of loss is diminished.

Moreover, a dividend will not be treated as QDI to the extent you are under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. Since the QDI rules are complex, you should consult your own tax advisor regarding the availability of the preferential tax rates for dividends paid on ordinary shares.

Exercise or Lapse of Warrants

Upon the exercise of our warrants, a U.S. Holder will not recognize gain or loss and will have a tax basis in the ordinary shares received equal to the U.S. Holder's tax basis in the warrant plus the exercise price of the warrant. The holding period for the shares purchased pursuant to the exercise of a warrant will begin on the day following the date of exercise and will not include the period during which the U.S. Holder held the warrant. If a warrant lapses unexercised, a U.S. Holder will recognize a capital loss in an amount equal to its tax basis in the warrant. Such loss will be long-term if the warrant has been held for more than one year. See "Disposition of Ordinary Shares or Warrants" below for a discussion of capital gains tax rates and limitations on deductions for losses. The loss will generally be from U.S. sources, but the loss may be from a non-U.S. source under some circumstances under the U.S.-Israel Tax Treaty. U.S. Holders should consult their own independent tax advisors regarding the sourcing of any losses due to the lapse of our warrants before exercise.

Dispositions of Ordinary Shares or Warrants

Subject to the discussion in "Passive Foreign Investment Company" below, you generally will recognize taxable gain or loss realized on the sale or other taxable disposition of ordinary shares or warrants equal to the difference between the U.S. dollar value of (i) the amount realized on the disposition (i.e., the amount of cash plus the fair market value of any property received), and (ii) your adjusted tax basis in the ordinary shares or warrants. Such gain or loss will be capital gain or loss.

If you have held the ordinary shares or warrants for more than one year at the time of disposition, such capital gain or loss will be long-term capital gain or loss. Preferential tax rates for long-term capital gain (currently, with a maximum rate of 15% for taxable years beginning before December 31, 2012) will apply to non-corporate U.S. Holders. If you have held the ordinary shares or warrants for one year or less, such capital gain or loss will be short-term capital gain or loss taxable as ordinary income at your marginal income tax rate. The deductibility of capital losses is subject to limitations.

Passive Foreign Investment Company

We generally will be a PFIC under Section 1297 of the Code if, for a taxable year, either (a) 75% or more of our gross income for such taxable year is passive income (the "income test") or (b) 50% or more of the average quarterly percentage, generally determined by fair market value, of our assets either produce passive income or are held for the production of "passive income (the "asset test"). Passive income includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

Certain "look through" rules apply for purposes of the income and asset tests described above. If we own, directly or indirectly, 25% or more of the total value of the outstanding shares of another foreign corporation, we will be treated as if we (a) held directly a proportionate share of the other corporation's assets, and (b) received directly a proportionate share of the other corporation's income. In addition, passive income does not include any interest, dividends, rents, or royalties that are received or accrued by us from a "related person" (as defined in Section 954 (d)(3) of the Code), to the extent such items are properly allocable to income of such related person that is not passive income.

Under the income and asset tests, whether or not we are a PFIC will be determined annually based upon the composition of our income and the composition and valuation of our assets, all of which are subject to change. In determining that we are not a PFIC, we are relying on our projected revenues and projected capital expenditures. If our actual revenues and capital expenditures do not match our projections, we may become a PFIC. For example, if we do not spend enough of the cash (a passive asset) we raise from any financing transactions we may undertake, the relative percentage of our passive assets will increase. In addition, our determination is based on a current valuation of our assets, including goodwill, if it exists. In calculating goodwill, we should value our total assets based on our market capitalization, determined using the market price of our ordinary shares. Such market price may fluctuate. If our market capitalization is less than anticipated or subsequently declines, this will decrease the value of our goodwill and we may become a PFIC. Furthermore, we may make a number of assumptions regarding the amount of value allocable to goodwill. However, it is possible that the IRS will challenge such valuation of goodwill, which may result in our being a PFIC.

We do not believe that we are currently a PFIC. However, because the PFIC determination is highly fact intensive and made at the end of each taxable year, there can be no assurance that we will not be a PFIC for the current or any future taxable year or that the IRS will not challenge our determination concerning our PFIC status. If we determine that we are a PFIC, we will take reasonable steps to notify you.

Default PFIC Rules under Section 1291 of the Code. If we are a PFIC, the U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of ordinary shares and warrants will depend on whether such U.S. Holder makes an election to treat us as a qualified electing fund ("QEF") under Section 1295 of the Code (a "QEF Election") or a mark-to-market election under Section 1296 of the Code (a "Mark-to-Market Election"). A U.S. Holder owning ordinary shares and warrants while we were or are a PFIC that has not made either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a "Non-Electing U.S. Holder."

If you are a Non-Electing U.S. Holder, you will be subject to the default tax rules of Section 1291 of the Code with respect to:

- any "excess distribution" paid on ordinary shares and warrants, which means any distribution received by you which, together with all other distributions received in the current taxable year, exceeds 125% of the average distributions received by you during the three preceding taxable years (or during your holding period for the ordinary shares and warrants, if shorter); and
- any gain recognized on the sale or other taxable disposition (including a pledge) of ordinary shares and warrants.

Under these default tax rules:

- any excess distribution or gain will be allocated ratably over your holding period for the ordinary shares and warrants;
- the amount allocated to the current taxable year and any period prior to the first day of the first taxable year in which we were a PFIC will be treated as ordinary income in the current year;
- the amount allocated to each of the other years will be treated as ordinary income and taxed at the highest applicable tax rate in effect for that year; and
- the resulting tax liability from any such prior years will be subject to the interest charge applicable to underpayments of tax.

In addition, notwithstanding any election you may make, dividends that you receive from us will not be eligible for the preferential tax rates applicable to QDI (as discussed above in “Distributions on Ordinary Shares”) if we are a PFIC either in the taxable year of the distribution or the preceding taxable year, but will instead be taxable at rates applicable to ordinary income.

Special rules for Non-Electing U.S. Holders will apply to determine U.S. foreign tax credits with respect to withholding taxes imposed on distributions on ordinary shares.

If we are a PFIC for any taxable year during which you hold ordinary shares or warrants, we will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold ordinary shares or warrants, regardless of whether we actually continue to be a PFIC. You may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the default tax rules of Section 1291 of the Code discussed above) as if your ordinary shares or warrants had been sold on the last day of the last taxable year for which we were a PFIC.

If we are a PFIC in any year with respect to you, you will be required to file an annual return on IRS Form 8621 regarding distributions received on ordinary shares and any gain realized on the disposition of ordinary shares or warrants.

QEF Election. If you make a QEF Election, you generally will not be subject to the default rules of Section 1291 of the Code discussed above. Instead, you will be subject to current U.S. federal income tax on your pro rata share of our ordinary earnings and net capital gain, regardless of whether such amounts are actually distributed to you by us. However, you can make a QEF Election only if we agree to furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information.

Mark-to-Market Election. U.S. Holders may make a Mark-to-Market Election, but only if the ordinary shares are marketable stock. The ordinary shares will be “marketable stock” as long as they listed on NASDAQ, and are regularly traded. Stock is “regularly traded” for any calendar year during which it is traded (other than in de minimis quantities) on at least fifteen days during each calendar quarter. There can be no assurances, however, that our ordinary shares will be treated, or continue to be treated, as regularly traded.

If the ordinary shares are marketable stock and you make a Mark-to-Market Election, you generally will not be subject to the default rules of Section 1291 of the Code discussed above. Rather, you generally will be required to recognize ordinary income for any increase in the fair market value of the ordinary shares and warrants for each taxable year that we are a PFIC. You will also be allowed to deduct as an ordinary loss any decrease in the fair market value to the extent of net marked-to-market gain previously included in prior years. Your adjusted tax basis in the ordinary shares and warrants will be adjusted to reflect the amount included or deducted.

The Mark-to-Market Election will be effective for the taxable year for which the election is made and all subsequent taxable years, unless the ordinary shares and warrants cease to be marketable stock or the IRS consents to the revocation of the election. You should consult your own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

Since the PFIC rules are complex, you should consult your own tax advisor regarding them and how they may affect the U.S. federal income tax consequences of the ownership and disposition of ordinary shares and warrants.

Information Reporting and Backup Withholding

Generally, information reporting requirements will apply to distributions on ordinary shares or proceeds on the disposition of ordinary shares and warrants paid within the U.S. (and, in certain cases, outside the U.S.) to U.S. Holders other than certain exempt recipients, such as corporations. Furthermore, backup withholding (currently at 28%) may apply to such amounts if the U.S. Holder fails to (i) provide a correct taxpayer identification number, (ii) report interest and dividends required to be shown on its U.S. federal income tax return, or (iii) make other appropriate certifications in the required manner. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9.

Backup withholding is not an additional tax. Amounts withheld as backup withholding from a payment to you may be credited against your U.S. federal income tax liability and you may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

Taxation of Non-U.S. Holders

Distributions on Ordinary Shares

Subject to the discussion in “Information Reporting and Backup Withholding” below, as a Non-U.S. Holder, you generally will not be subject to U.S. federal income tax, including withholding tax, on distributions received on ordinary shares, unless the distributions are effectively connected with a trade or business that you conduct in the U.S. and (if an applicable income tax treaty so requires) attributable to a permanent establishment that you maintain in the U.S.

If distributions are effectively connected with a U.S. trade or business and (if applicable) attributable to a U.S. permanent establishment, you generally will be subject to tax on such distributions in the same manner as a U.S. Holder, as described in “Taxation of U.S. Holders – Distributions on Ordinary Shares” above. In addition, any such distributions received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Dispositions of Ordinary Shares and Warrants

Subject to the discussion in “Information Reporting and Backup Withholding” below, as a Non-U.S. Holder, you generally will not be subject to U.S. federal income tax, including withholding tax, on any gain recognized on a sale or other taxable disposition of ordinary shares and warrants, unless (i) the gain is effectively connected with a trade or business that you conduct in the U.S. and (if an applicable income tax treaty so requires) attributable to a permanent establishment that you maintain in the U.S., or (ii) you are an individual and are present in the U.S. for at least 183 days in the taxable year of the disposition, and certain other conditions are present.

If you meet the test in clause (i) above, you generally will be subject to tax on any gain that is effectively connected with your conduct of a trade or business in the U.S. in the same manner as a U.S. Holder, as described in “Taxation of U.S. Holders – Dispositions of Ordinary Shares and Warrants” above. Effectively connected gain realized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

If you meet the test in clause (ii) above, you generally will be subject to tax at a 30% rate on the amount by which your U.S. source capital gain exceeds your U.S. source capital loss.

Information Reporting and Backup Withholding

Payments to Non-U.S. Holders of distributions on, or proceeds from the disposition of, ordinary shares and warrants are generally exempt from information reporting and backup withholding. However, a Non-U.S. Holder may be required to establish that exemption by providing certification of non-U.S. status on an appropriate IRS Form W-8.

Backup withholding is not an additional tax. Amounts withheld as backup withholding from a payment to you may be credited against your U.S. federal income tax liability and you may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

Medicare Tax

In addition to the taxes on dividends and dispositions of our shares or warrants described above, recently enacted legislation requires certain U.S. Holders that are individuals, estates or trusts to pay up to an additional 3.8% tax on net investment income, which may include dividends and capital gains, for taxable years beginning after December 31, 2012.

F. Dividends and Paying Agent

Not applicable.

G. Statements by Experts

Not applicable.

H. Documents on Display

We are subject to the informational requirements of the Exchange Act, applicable to foreign private issuers. We, as a "foreign private issuer," are exempt from the rules under the Exchange Act prescribing certain disclosure and procedural requirements for proxy solicitations, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchases and sales of shares. In addition, we are not required to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we will file with the SEC, commencing with the fiscal year ending December 31, 2011 within four months after the end of each fiscal year, an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also expect to furnish quarterly reports on Form 6-K containing unaudited interim financial information for the first three quarters of each fiscal year, within 90 days after the end of such quarter.

You may read and copy any document we file or furnish with the SEC at reference facilities at 450 Fifth Street, NW, Washington, DC 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, NW, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You can review our SEC filings and the registration statement by accessing the SEC's internet site at http://www.sec.gov.

I. Subsidiary Information

Not applicable.

ITEM 11. ***Quantitative and Qualitative Disclosures About Market Risk.***

Quantitative and Qualitative Information about Market Risk

The primary objective of our investment activities, if any, is to preserve principal while at the same time maximizing the income we receive from investments without significantly increasing risk. Some of the securities in which we may invest may be subject to market risk. This means that a change in prevailing interest rates and foreign currency rates against the NIS may cause the value of the investment to fluctuate. For example, if we purchase a security that was issued with a fixed interest rate and the prevailing interest rate later rises, the value of our investment will probably decline. To minimize this risk, we may maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including U.S. dollars, NIS bank deposits, money market funds and government and non-government debt securities. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate.

Our financial market risk includes risks related to international operations and related foreign currencies. We anticipate that sales outside of North America will continue to account for a significant portion of our consolidated revenue in 2012. To date, most of our sales have been valued in dollars. In future periods, we expect our sales to continue to be principally valued in dollars, narrowing foreign currency exchange risk.

We value part of our expenses in some of our international operations, such as Israel, in each country's local currency, and therefore are subject to foreign currency exchange risk. However, through December 31, 2011 , we have not experienced any significant negative impact on our operations as a result of fluctuations in foreign currency exchange rates; we have incurred an income of $56,000 in the year ended December 31, 2012 due to fluctuations in foreign exchange rates. We do not use financial instruments to hedge operating expenses in Israel that are valued in local currency. We intend to continue to assess the need to utilize financial instruments to hedge currency exposures on an ongoing basis.

We do not use derivative financial instruments for speculative trading purposes, nor do we hedge our foreign currency exposure to offset the effects of changes in foreign exchange rates.

Our exposure to market risks for changes in interest rates relates primarily to our credit facility. At December 31, 2011 , our financial market risk related to this debt was immaterial. Our general policy is to limit the risk of principal loss and ensure the safety of invested funds by limiting market and credit risk.

Foreign currency risk

Most of our sales are denominated in U.S. dollars, and we incur most of our expenses in U.S. dollars and Israeli Shekels. According to the salient economic factors indicated in ASC Topic 830, "Foreign Currency Matters," our cash flow, sale price, sales market, expense, financing and inter-company transactions and arrangement indicators are predominantly denominated in U.S. dollars. In addition, the U.S. dollar is the primary currency of the economic environment in which we operate, and thus the U.S. dollar is our functional and reporting currency.

In our balance sheet, we remeasure into U.S. dollars all monetary accounts (principally cash and cash equivalents and liabilities) that are maintained in other currencies. For this remeasurement we use the foreign exchange rate at the balance sheet date. Any gain or loss that results from this remeasurement is reflected in the statement of income as financial income or financial expense, as appropriate.

We measure and record non-monetary accounts in our balance sheet (principally fixed assets, prepaid expenses and share capital) in U.S. dollars. For this measurement we use the U.S. dollar value in effect at the date that the asset or liability was initially recorded in our balance sheet (the date of the transaction).

Interest Rate Risk

Our cash borrowing from Israeli bank is subject to interest rate changes, and therefore our interest expenses are sensitive to changes in interest rates. The interest rate on our borrowing is linked to LIBOR, which fluctuates. However, the amount of borrowings that we have that is linked to LIBOR is not material to us as a whole, and therefore our exposure to fluctuations in LIBOR rate is not material as well.

ITEM 12 . ***Description of Securities Other than Equity Securities.***

Not applicable.

PART II

ITEM 13 . ***Defaults, Dividend Arrearages and Delinquencies.***

A. None

B. None.

ITEM 14. ***Material Modifications to the Rights of Security Holders and Use of Proceeds*** .

None.

ITEM 15. Controls and Procedures.

Disclosure Controls and Procedures

Our management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2012. Our disclosure controls and procedures include components of our internal control over financial reporting. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as of December 31, 2012, were effective.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure 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 and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management believes that the consolidated financial statements included in this report present fairly, in all material respects, our financial position, results of operations and cash flows for the period presented.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, and includes policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures are made only in accordance with authorizations of our management and Board of Directors (as appropriate); and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Our management assessed the effectiveness of internal control over financial reporting as of December 31, 2012, the end of our fiscal year. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the report entitled “Internal Control – Integrated Framework.”

Based on that assessment, our Chief Executive Officer and Chief Financial Officer have concluded that we had maintain effective internal control over financial reporting.

Inherent limitations on effectiveness of controls.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Attestation Report of Registered Public Accounting Firm

Not applicable.

Changes in Internal Controls over Financial Reporting

During the period covered by this Annual Report, no changes in our internal control over financial reporting have occurred that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. ***Audit Committee Financial Expert***

Our Board of Directors has determined that Messrs. Avi Ayash and 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***

Our Board of Directors adopted a code of ethics that applies to our chief executive officer, chief financial officer (if any), director of finance, controller, and other persons performing similar functions a copy of which is previously filed and incorporated by reference to this Annual Report. A copy of our code of ethics will be provided, without charge, upon written request of any person delivered as follows: Nolton House, 14 Shenkar Street P.O.B 12190, Hertzliya Pituach 46725 Israel.

ITEM 16C. ***Principal Accountant Fees and Services***

Deloitte Brightman Almagor Zohar & Co. a member firm of Deloitte Touche Tohmatsu serves as our principal independent registered public accounting firm for the financial year 2012 and Fahn, Kanne & Co., a member of Grant Thornton, has served as our principal independent registered public accounting firm for the FY 2011, and **.**
The following table presents the fees to our external auditors for professional services rendered in the years ended December 31, 2012 and 2011:

	2012	**2011**
Audit Fees	40,000	61,000
Audit-Related Fees	-	-
Tax Fees	5,000	5,000
Total	45,000	66,000

"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, 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 for Non-Audit Services

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***

None.

ITEM 16E. ***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

None.

ITEM 16F. ***Change in Registrant's Certifying Accountant***

Not applicable.

ITEM 16G. ***Corporate Governance***

Not applicable.

ITEM 16H. ***Mine Safety Disclosure***

Not applicable.

PART III

ITEM 17. ***Financial Statements.***

Not applicable.

ITEM 18. ***Financial Statements.***

SUPERCOM LTD.
2012 ANNUAL REPORT

INDEX TO THE FINANCIAL STATEMENTS

The amounts in the Financial Statements are stated in U.S. dollars ($) in thousands.

SUPERCOM LTD (FORMERLY VUANCE) AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

IN U.S. DOLLARS

INDEX

Deloitte.
Brightman Almagor Zohar

REPORT OF INDE PEN DENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
SuperCom Ltd. (formerly Vuance ltd.)

We have audited the accompanying consolidated balance sheets of SuperCom Ltd and subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audit 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, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SuperCom Ltd. and subsidiaries as of December 31, 2012, 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.

/s/ Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
March 21, 2013

TEL AVIV - MAIN OFFICE	RAMAT GAN	JERUSALEM	HAIFA	BEER SHEVA	EILAT
1 Azrieli Center Tel Aviv, 67021 P.O.B. 16593 Tel Aviv, 61164	6 Ha'racon Ramat Gan, 52521	12 Sarei Israel Jerusalem, 94390	5 Ma'aleh Hashichrur P.O.B. 5648 Haifa, 31055	Omer Industrial Park Building No.10 P.O.B. 1369 Omer, 84965	The City Center P.O.B 583 Eilat, 88104
Tel: +972 (3) 608 5555 Fax: +972 (3) 609 4022 info@deloitte.co.il	Tel: +972 (3) 755 1500 Fax: +972 (3) 575 9955 info-ramatgan@deloitte.co.il	Tel: +972 (2) 501 8888 Fax: +972 (2) 537 4173 info-jer@deloitte.co.il	Tel: +972 (4) 860 7333 Fax: +972 (4) 867 2528 info-haifa@deloitte.co.il	Tel: +972 (8) 690 9500 Fax: +972 (8) 690 9600 info-beersheva@deloitte.co.il	Tel: +972 (8) 637 5676 Fax: +972 (8) 637 1628 info-eilat@deloitte.co.il

CONSOLIDATED BALANCE S HEETS

U.S. dollars in thousands

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 225	$ 215
Trade receivables (net of allowance for doubtful accounts of $ 1,726 and $ 134 as of December 31, 2012 and 2011, respectively)	1,598	1,542
Deferred tax short term	516	-
Other accounts receivable and prepaid expenses (Note 3)	311	105
Inventories, net (Note 4)	280	269
Total current assets	2,930	2,131
Severance pay fund	203	228
Deferred tax long term	517	-
Property and equipment, net (Note 6)	93	96
Total assets	$ 3,743	$ 2,455

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

	December 31, 2012	December 31, 2011
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit	$ 101	$ 112
Trade payables	1,780	2,439
Employees and payroll accruals	138	139
Accrued expenses and other liabilities (Note 8)	777	2,164
Convertible bonds (Note 11)	-	2,519
Short-term loan and others	-	456
Total current liabilities	2,796	7,829
LONG-TERM LIABILITIES:		
Accrued severance pay	236	227
Total long-term liabilities	236	227
SHAREHOLDERS':		
Share capital:		
Ordinary shares of NIS 0.0588235 par value - Authorized 52,000,000 shares as of December 31, 2012; Issued and outstanding: 36,769,757 and 12,035,272 shares as of December 31, 2012 and 2011, respectively	574	192
Additional paid-in capital	43,518	41,713
Amount of liability extinguished on account of shares	127	819
Accumulated deficit	(43,508)	(48,325)
Total shareholders' equity (deficiency)	711	(5,601)
Total liabilities and shareholders' e quity	$ 3,743	$ 2,455

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

CONSOLIDATED STATEMENTS OF OP ERATIONS

U.S. dollars in thousands, except per share data

	Year ended December 31, 2012	2011	2010
Revenues	$ 8,940	$ 7,922	$ 7,389
Cost of revenues	1,619	3,306	2,057
Gross profit	7,321	4,616	5,332
Operating expenses:			
Research and development	313	462	386
Selling and marketing	3,060	3,505	4,405
General and administrative	857	732	1,985
Other expenses (income)	1,085	(137)	(396)
Total operating expenses	5,315	4,562	6,380
Operating income (loss)	2,006	54	(1,048)
Financial income (expenses), net	1,805	990	(678)
Income (loss) before income tax	3,811	1,044	(1,726)
Income tax	1,006	(25)	(50)
Net income (loss) from continuing operations	4,817	1,019	(1,776)
Loss from discontinued operations	-	-	(189)
Net income (loss)	$ 4,817	$ 1,019	$ (1,965)
Earnings (loss) per share from continuing operations:			
Basic	$ 0.18	$ 0.11	$ (0.29)
Diluted	$ 0.13	$ 0.09	$ (0.29)
Loss per share from discontinued operations basic and diluted:	-	-	$ (0.03)
Net earnings (loss) per share:			
Basic	$ 0.18	$ 0.11	$ (0.32)
Diluted	$ 0.13	$ 0.09	$ (0.32)
Weighted average number of ordinary shares used in computing basic earnings (loss) per share	27,475,448	9,126,327	6,177,862
Weighted average number of ordinary shares used in computing diluted earnings (loss) per share	34,664,459	11,710,254	6,177,862

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

STATEMENTS OF CHANGES IN SHAR EHO LDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares					
	Number of Shares	Share capital	Additionalpaid-in capital	Amount of liability extinguished on account of shares	Accumulated deficit	Total shareholders' equity
	$	$	$	$	$	$
Balance as of January 1, 2010	5,724,421	89	41,019		(47,379)	$ (6,271)
Issuance of shares in connection with acquisition of Intelli-Site (see Note 1a)	6,932	-*	-	-	-	-*
Issuance of shares (Note 12f)	1,538,461	24	176	-	-	200
Exercise of options	11,007	-*	-	-	-	-*
Warrants issued in connection with extinguishments of liabilities (see Note 1d)	-	-	147	-	-	147
Stock- based compensation	-	-	18	-	-	18
Net loss	-	-	-	-	(1,965)	(1,965)
Total comprehensive loss						
Balance as of December 31, 2010	7,280,821	113	41,360	-	(49,344)	$ (7,871)
Exercise of options	10,007	-*	-	-	-	-*
Shares, options and warrants issued in connection with extinguishments of liabilities (see Notes 1d and 12d)	4,744,444	79	343	819	-	1,241
Stock- based compensation	-	-	10	-	-	10
Net income	-	-	-	-	1,019	1,019
Balance as of December 31, 2011	12,035,272	192	41,713	819	(48,325)	$ (5,601)
Exercise of options	342,121	5	(5)	-	-	0
Shares, options and warrants issued in connection with extinguishments of liabilities (see Notes 1d and 12d)	24,392,364	377	1,810	(692)	-	1,495
Stock- based compensation	-	-	-	-	-	0
Net income	-	-	-	-	4,817	4,817
Balance as of December 31, 2012	36,769,757	574	43,518	127	(43,508)	711

*Less than $1.

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

CONSOLIDATED STATEMENTS OF CASH F LOW S

U.S. dollars in thousands

	Year ended December 31,		
	2012	2011	2010
Cash flows from operating activities :	$	$	$
Net income (loss)	4,817	1,019	(1,965)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	31	28	53
Accrued severance pay	9	(27)	(47)
Stock-based compensation	-	10	18
Amortization of discount on convertible bonds		-	20
Deferred tax	(1,033)		
Capital loss on disposal of property and equipment	-	6	-
Capital gain on sale of subsidiary	-	-	(272)
Capital gain on extinguishments of liabilities	(2,230)	(2,149)	(124)
Decrease (increase) in trade receivables, net	(55)	(790)	105
Decrease (increase) in other accounts receivable and prepaid expenses	(206)	283	(105)
Decrease (increase) in inventories, net	(11)	(72)	(132)
Increase (decrease) in trade payables	(659)	1,466	(2)
Increase (decrease) in employees and payroll accruals	(1)	3	(311)
Increase (decrease) in advances from customer	-	(1,010)	973
Increase (decrease) in accrued expenses and other liabilities	(638)	1,044	577
Net cash used in operating activities	24	(189)	(1,212)
Cash flows from investing activities :			
Purchase of property and equipment	(28)	(23)	(4)
Proceeds from sale of property and equipment	-	3	-
Proceeds from sale of operations net of cash sold (Appendix B)	-	-	397
Sale of subsidiary net of cash sold	-	-	(3)
Decrease in severance pay fund	25	6	49
Restricted cash deposits, net	-	130	200
Net cash provided by investing activities	(3)	116	639
Cash flows from financing activities :			
Short-term bank credit, net	(11)	112	-
Principle repayment of convertible bonds	-	(21)	(86)
Issuance of share capital, net of issuance costs	-	-	200
Proceeds from exercise of options and warrants, net	-*	-*	-*
Payment of liability to a former owner of an acquire	-	-	-
Net cash (used in) provided by financing activities	(11)	91	114
Increase (decrease) in cash and cash equivalents	10	18	(459)
Cash and cash equivalents at the beginning of the year	215	197	656
Cash and cash equivalents at the end of the year	225	215	197

*Less than $1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

U.S. dollars in thousands

	Year ended December 31,		
	2012	**2011**	**2010**
Supplemental disclosure of cash flows information:	**$**	**$**	**$**
Appendix A:			
Sale of operations net of cash sold:			
Assets and liabilities of the operations, as of date of sale:			
Working capital (excluding cash and cash equivalents)	-	-	(208)
Property and equipment, net	-	-	88
Intangible assets, net	-	-	517
	-	-	397
Appendix B:			
Sale of subsidiary net of cash sold:			
Assets and liabilities of the subsidiary, as of date of sale:			
Working capital (excluding cash and cash equivalents)	-	-	(276)
Property and equipment, net	-	-	4
Long-term liability	-	-	(3)
Capital gain on sale of subsidiary	-	-	272
	-	-	(3)
Cash paid during the year for :			
Interest	5	6	-
Income taxes, net	27	25	50
Supplemental disclosure of non-cash investing and financing activities:			
Extinguishments of liabilities credited to shareholder's equity (Note 1d)	1,492	1,220	147
Issuance of shares to service providers and officer	-	21	-

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

NOTE 1:- GENERAL

a. S upercom Ltd. (the “Company") was incorporated in 1988 in Israel. The Company’s ordinary shares have been listed for trade on the OTC Market, which operates an electronic quotation service for securities traded over-the-counter, since October 1, 2009, under the ticker symbol “SPCBF”. On January 24th, 2013 the Company has returned to its original name SuperCom Ltd. from the name Vuance Ltd.

Until January 2010 (the date of the sale of the activities as described below in Note 1b), the Company developed and marketed security solutions for viewing, tracking, locating, credentialing, and managing essential assets and personnel, which encompassed electronic access control, urban security, and critical situation management systems as well as long-range Active RFID for public safety, commercial, and government sectors. Following the sale of certain activities in January 2010, the Company is focusing on its wireless ID products and solutions, e-ID projects and solutions.

The Company is headquartered in Israel.

The Company sells its products through centralized marketing office in U.S and Israel.

The Company's subsidiaries includes: Vuance Inc. incorporated in the United States (see b below regarding the presentation of certain activity of Vuance Inc as discontinued operations), Vuance RFID Inc., (incorporated in Delaware) (see b below regarding the presentation of certain activity of Vuance RFID as discontinued operations), S.B.C. Aviation Ltd., (incorporated in Israel) which began operations in 2007, and focused until 2009 on executing perimeter security and a border control project at a European International Airport, PureRFid, Inc. (incorporated in Delaware) which focuses on the marketing and selling of the Company’s active RFID solutions and until October 21, 2010 SuperCom Asia Pacific Limited incorporated in Hong Kong which focused on marketing (see c below). As of December 31, 2012, all the Company’s activities were concentrated mainly through Supercom Ltd. and PureRFid, Inc.

Regarding the sale of certain assets and liabilities of Vuance Inc in January 2010, see b below.

On March 25, 2009, the Company, through its subsidiary, Vuance Inc., completed the acquisition of certain assets and liabilities of Intelli-Site, Inc. (“Intelli-Site”). The purchase price was $262 payable in cash and in shares of the Company (which were subject to a certain lock up mechanism) and included a contingent consideration of up to $600 based upon certain conditions.

The results of operations of Intelli-Site were included in the consolidated financial statements of the Company commencing April, 2009. However, during the first quarter of 2010, this activity (including the contingent consideration related to it) was sold, see b below.

b. Discontinued operations

On January 28, 2010 (the “Closing Date”), the Company and its subsidiary Vuance, Inc. completed the sale of certain of the assets (including certain accounts receivable and inventory) and certain of the liabilities (including certain accounts payable) of Vuance Inc. (the “Sale”) related to the Company's electronic access control market (the “Vuance EAC Business”), pursuant to a certain Agreement for Purchase and Sale of Business Assets (the “Purchase Agreement”), dated as of January 9, 2010 between Vuance Inc. and OLTIS Security Systems International, LLC (“OSSI”). On the Closing Date, as consideration for the Sale of the Vuance EAC Business, OSSI paid Vuance Inc. $147 in cash. In addition, OSSI paid off (the “Bridge Bank Payment”) a certain Business Financing Agreement (the “Loan”) between Vuance Inc. and Bridge Bank, National

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

NOTE 1:- GENERAL (Cont.)

b. Discontinued operations (cont.)

Association in an amount of $290. Further to the Bridge Bank Payment, the Loan was released, and the Company and Vuance Inc. no longer have any liabilities associated with the Loan. The Purchase Agreement includes an indemnification clause pursuant to which, Vuance Inc. agrees to indemnify and hold OSSI harmless from and against any claim or liability of Vuance Inc. or the Company, which may be asserted against OSSI, excepting only to the extent of any business debts and other liabilities which OSSI expressly agrees to pay or assume at the closing date.

On January 29, 2010 (the “Closing Date”), the Company and its subsidiary, Vuance, Inc., completed the sale of certain of the assets and certain of the liabilities of Vuance Inc. (the “Sale”) related to the Company's Government Services Division (the “Vuance CSMS Business”), pursuant to a certain asset purchase agreement (the “Purchase Agreement”) dated January 29, 2010 between the Company, Vuance Inc., WidePoint Corporation (“WidePoint”) and Advance Response Concepts Corporation.

On the Closing Date, as consideration for the Sale, WidePoint paid Vuance Inc. $250. In addition, WidePoint agreed to pay Vuance Inc. a maximum earn out of $1,500 over the course of the calendar years 2010, 2011, and 2012, subject to the performance of certain financial requirements of the Vuance CSMS Business during each of those years. The Purchase Agreement includes an indemnification clause pursuant to which, each of the parties shall indemnify and hold harmless the other party in the event of the existence of certain circumstances stipulated in the Purchase Agreement.

Each of the activities sold meets the definition of a component under ASC Topic 205-20 - “ *Discontinued Operation”* , and accordingly, the results of operations of these components were presented as discontinued operations.

Following the sale of the activities, the Company does not have any involvement with respect to the activities sold.

The results of the discontinued operations are as follows:

	Year ended December 31,2010
	$
Revenues	541
Cost of revenues	(497)
Research and development	(96)
Selling and marketing	(105)
General and administrative	(28)
Financial expenses	(4)
Impairment of goodwill and other intangible assets	-
Net loss	$ (189)

NOTE 1:- GENERAL (Cont.)

c. Sale of subsidiary:

During October 2010, the Company sold its entire equity interest in its wholly owned Hong Kong subsidiary, SuperCom Asia Pacific Limited (the "Subsidiary"), for no consideration. As part of this sale, the Company assigned to the purchaser certain outstanding loans due to the Company by the Subsidiary in the amount of $1,400. As result of the sale of the Subsidiary, the Company realized a capital gain of $272 in the fourth quarter of 2010.

d. Extinguishment of liabilities

On November 3, 2010, the Company submitted to the District Court in Petach-Tikva, Israel, a request to summon meetings of creditors of the Company, in order to approve a proposed arrangement between the Company and its creditors (including convertible bond holders) in accordance with Section 350 of the Israeli Companies Law 5759-1999. The proposed arrangement involved an allotment of ordinary shares or warrants to purchase ordinary shares of the Company to certain of its creditors, at a price of $0.09 per ordinary share against 40% of the total outstanding debt to the creditors, to the effect of total satisfaction of the entire debt owed to the Company's creditors (thus forgiving and waiving 60% of the total outstanding debt of the Company). The proposed arrangement was based on the one which was approved by the general meeting of the shareholders dated September 12, 2010. The Company convened the meetings of its creditors to approve the proposed debt arrangement during February and March 2011. On March 15, 2011, the Company filed an application with the Petach-Tikva District Court, in Israel, for the approval of the creditor arrangement.

On July 18, 2011, the Discrict Court decided not to approve the Company's application, mainly due to an objection to the proposed arrangement filed by one of the Company's secured creditors, Special Situations Funds ("SSF"), which later assigned its bond on November 8, 2011 to Mr. Eliyahu Trabelsi (see also Notes 11 and 13f). In February 2012, following the approval of the board of directors, the Company decided to proceed with the arrangement which was approved by its general meeting without further proceeding in the District Court subject to its creditors agreements.

As of December 31, 2010, certain creditors with a total outstanding debt of $271 had accepted the Company's debt arrangement proposal. The Company allotted for those certain creditors a total of 1,206,142 warrants to purchase ordinary shares of the Company (see also Note 12f2). In accordance with ASC Topic 470-50-40, the Company recorded an amount of $124 as a gain from extinguishment of debts based on the difference between the carrying amount of the liabilities extinguished ($271) and the fair value of the warrants allotted ($147), which was credited directly to additional paid-in capital.

During 2011, Certain creditors with a total outstanding debt of $3,369 had accepted the Company's debt arrangement proposal. The Company allotted for those certain creditors a total of 1,081,871 warrants and 300,000 options (with exercise price of nil) to purchase ordinary shares of the Company and 13,538,844 ordinary shares of the Company (see also Note 11). In accordance with ASC Topic 470-50-40, the Company recorded an amount of $2,149 as a gain on extinguishment of debts based on the difference between the carrying amount of the liabilities extinguished ($3,369) and the fair value of the warrants and options allotted ($1,220), which was credited directly to additional paid-in capital (see also Note 12).

NOTE 1:- GENERAL (Cont.)

d. Extinguishment of liabilities (cont.)

In a certain arrangement that was subject to the approval of the board of directors, following such approval, during 2012, certain creditors including Sigma Wave Ltd (“Sigma”) and Mr. Eliyahu trabelsi, a convertible bond holders, had accepted the Company's debt arrangement proposal for a total amount of $3,910 its outstanding debt. The Company allotted to Sigma and Mr. Eliyahu Trabelsi a total of 14,585,155 ordinary shares of the Company (see also Note 11). In accordance with ASC Topic 470-50-40, the Company recorded an amount of $2,417 as a gain on extinguishment of debts based on the difference between the carrying amounts of the liability extinguished $3,910 and the fair value of the ordinary shares granted $1,240, which was credited directly to share capital $221 and additional paid-in capital $1,019 and Amount of liability extinguished on account of shares $127, and waarant in fair value $124.

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

Throughout the reporting periods the Company derived most of its revenues from two major customers. See also Note 14c.

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.

f. During the year 2010, the Board of Directors had elected new board of directors recommended by Sigma Wave. Sigma had decided to acquire BH Bond(see Note 11) in order to initiate a Voluntary Debt to Equity Conversion of the main company liabilities to the bond holders and to certain company creditors. The Conversion which was completed in 2012, reduced the company liabilities by over $6 million.

The company had implemented a restructuring plan starting at the Q4 of 2010, consist of (i) major reduction of the operating expenses, by G&A cost cutting and optimization of the Sales global network (ii) expanding Gross Profit margin by negotiation of a better terms with supplier and subcontractors.(iii) sales of unprofitable subsidiaries and cutting cost in other global subsidiaries (iv)discontinue of un synergic activities and divisions (v) increase of sales in the company core competence markets.(vi) increased activities in more lucrative and rapid growing verticals markets(vii) the company have brought on board new and highly experienced executives and market experts to support the company broadening activity.

Starting at Q4 of 2010, the company had demonstrated improvement in all operational and financial parameters; Positive operation profit in Q4 of 2010, completion of the FY 2011 with $1 million net profit, FI 2012 with $4.8 million net profit, $2 million operating profit, and positive cash flow.

Management believed that for the FY 2013 and 2014, the company will continue with positive financial and operational performance; net profit and positive cash from operation .

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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. As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to allowance for doubtful account and contingencies.

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.

Monetary accounts maintained in currencies other than the U.S. dollar are re-measured into U.S. dollars in accordance with the standards of the Financial Accounting Standards Board ("FASB"). 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 in Israel and the United States. 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 and cash equivalents.

e. 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.

f. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs are mainly provided to cover risks arising from slow-moving items or technological obsolescence. Cost is determined as follows:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

g. Inventories (cont.):

Raw materials, parts and supplies - using the “moving average cost" method or the “first in first out” method.

Finished products - on the basis of direct manufacturing costs.

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. 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 by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value, less costs to sell.

j. Convertible Bonds **:**

the company applied the provisions of ASC Topic 470 – 10 – 45 “Debt – Other presentation matters” with respect to a financing agreement signed after December 31, 2010 but before the issuance of the 2010 financial statements and accordingly, presented as of December 31, 2010, certain convertible bonds in a total amount of $4,262, as a long term liability.

k. 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, 2012, 2011 and 2010 amounted to $10, $15 and $57, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

l. Revenue recognition:

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

Product sales are recognized in accordance with Staff Accounting Bulletin No. 104, “Revenue Recognition” (“SAB No. 104”), 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, 2012, the Company had an allowance for customer returns in an amount of $6.

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. As of December 31, 2012, no such estimated losses were identified.

The Company believes that the use of the percentage of completion method is appropriate, since the Company has the ability, using also an independent subcontractor's evaluation, to make reasonably dependable estimates of the extent of progress made towards completion, contract revenues and contract costs. In addition, contracts executed 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.

m. Revenue recognition

In contracts that do not meet all the conditions mentioned above, the Company utilized 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, 2011 and 2012, all the long-term contracts were completed and their related revenues were recognized in full.

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

The 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.

Deferred revenues and customer advances include amounts received from customers for which revenues have not been recognized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Company is entitled to royalties upon the issuance of certificates. Such royalties are recognized when the sales are reported to the Company (usually on a monthly basis).

n. Shipping and handling costs:

Shipping and handling fees billed to customers are reflected as revenues while the related shipping and handling costs are included in cost of revenues. To date, shipping and handling costs have not been material.

o. Research and development costs:

Research and development costs (other than software) are expensed as incurred.

p. 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 2012, 2011 and 2010 financial statements.

q. 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 limited number of customers located primarily in Eastern Europe, the United States and Israel. 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, such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

r. Basic and diluted earnings (loss) per share:

Basic earnings (loss) per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings (loss) 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 and the dilutive potential, if any, of convertible bonds using the “if-converted method”.

The number of potential shares from the conversion of convertible bonds, options and warrants that have been excluded from the calculation were 512,080, 2,733,688 and 4,557,840 for the years ended December 31, 2012, 2011 and 2010, respectively.

s. Fair value of financial instruments:

At December 31, 2012 and 2011, the carrying amounts of cash and cash equivalents, restricted cash deposits, current trade receivables, other accounts receivable, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such financial instruments.

t. Accounting for stock-based compensation:

Share-based compensation, including grants of stock options, is recognized in the consolidated statement of operations 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 value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company’s consolidated statement of operations.

The Company estimates the fair value of employee stock options using a Black-Scholes valuation model. The Company amortizes compensation costs using the graded vesting attribution method over the vesting period, net of estimated forfeitures.

u. Discontinued operations:

The Company applies ASC Topic 205-20, *"Presentation of Financial Statements - Discontinued Operation"* . According to ASC Topic 205-20, when a component of an entity, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on the disposed component, required to be classified as discontinued operations and the assets and liabilities of such component should be classified as assets and liabilities attributed to discontinued operations if both of the following conditions are met: a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the company as a result of the disposal transaction, and b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. (See also Note 1b).

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

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2012	**2011**
	$	**$**
Prepaid expenses	138	21
Government institutions	106	56
Others	67	28
	311	105

NOTE 4:- INVENTORIES, NET

	December 31,	
	2012	**2011**
	$	**$**
Raw materials, parts and supplies	259	216
Finished products	21	53
	280	269

As of December 31, 2012 and 2011, the inventory is presented net of write offs, for slow inventory in the amount of approximately $57 and $74 respectively.

NOTE 5:- INVESTMENT IN A MAJORITY-OWNED COMPANY

In December 1997, the Company set up SuperCom Slovakia, owned equally with another third-party investor, in order to execute a transaction with the Ministry of Interior of the Slovak Republic.

In March 2000, the Company purchased an additional 16% of SuperCom Slovakia, at a nominal value of $1, and granted such third-party investor a loan in an amount of $275, bearing interest of 0.7% per month, for any amounts outstanding. Interest is compounded on the outstanding principal balance of the loan and is to be repaid under the same conditions as the outstanding principal balance.

The third-party investor has an option to buy back 16% of the shares, for $1, upon repayment of the loan to the Company.

The Company currently owns 66% of SuperCom Slovakia's outstanding shares and accounts for the investment using the equity method of accounting, due to the substantive participation rights held by the non-controlling interest holder, which impact the Company's ability to exert control over the investee.

During 2006, the Company wrote down the entire loan balance due to litigation developments regarding this issue and due to low probability of collection of the loan. See Note 10c2. During all the reported periods, the subsidiary had no operating activity.

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

NOTE 6:- PROPERTY AND EQUIPMENT, NET

	December 31, 2012	December 31, 2011
	$	$
Cost:		
Computers and peripheral equipment	274	254
Office furniture and equipment	198	194
Leasehold improvements	29	24
	501	472
Accumulated depreciation:		
Computers and peripheral equipment	253	246
Office furniture and equipment	143	128
Leasehold improvements	12	2
	408	376
Depreciated cost	93	96

Depreciation expenses for the years ended December 31, 2012, 2011 and 2010, were $32, $28 and $47, respectively.

The property & equipment also include intangible assets in amount of $72, which been fully depreciation.

NOTE 7:- BANK CREDIT

a. On February 10, 2011 the Company received from an Israeli bank a credit line in an amount of $100. As of December 31, 2012 and December 31, 2011, the entire amount was utilized. The credit line is secured by the personal guarantee of the Company's current and former chairmen of the board of directors.

b. Regarding guarantees and liens - see Note 10b.

NOTE 8:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31 2012	December 31 2011
	$	$
Accrued marketing expenses	-	541
Subcontractors of long term contract	-	252
Litigation provision	-	147
Related parties	387	414
Legal service providers	69	365
Withholding tax provision in respect of convertible bonds held by controlling shareholder	-	177
Other accrued expenses	321	268
	777	2,164

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 in 2013.

In October, 2011, the Company signed lease agreements for new offices in Hertzliya, (Israel), for a period of two years commencing on October 1, 2011.

The monthly lease amount, including management fees of the leased property, is approximately $15.

Future minimum lease commitments under non-cancelable operating leases for the years ended December 31, are as follows :

2013	141
	$ 141

b. Guarantees, indemnity and liens:

1. The Company issued on October 17, 2011 a bank guarantee to the services company of its new offices in Herzliya (see a above), in an amount of up to NIS62,662 ($16 as of December 31, 2011), which was replaced by a security deposit in an amount of NIS74,013($20 as of December 31, 2012)

2. 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 current and former chairmen of the board of directors, unlimited in amount, in order to secure personal guarantees granted by them in favor of the Company, such as to a bank (see Note 7a) and in order to secure short-term loans that are given by them from time to time to the Company.

c. Litigation:

1. In April 2004, the Department for Resources Supply of the Ministry of Ukraine (the "Department") filed a claim with the International Commercial Arbitration Court at the Ukrainian Chamber of Commerce and Industry (the "Arbitration Court") to declare Contract No. 10/82 (the "Contract"), dated April 9, 2002, between the Company and the Ministry of Internal Affairs of the Ukraine (the "Ministry"), as void due to defects in the proceedings by which the Company was awarded the Contract. In July, 2004, the Arbitration Court declared the Contract as void. On April 27, 2005, the Company appealed the decision to the High Commercial Court of the Ukraine. In May 2005, the Department filed a new statement of claim with the Arbitration Court for restitution of $1,048 paid to the Company by the Department under the Contract. On September 27, 2005, the Company received a negative award issued by the Arbitration Court in the second claim (the "Award"). On December 12, 2005, the Company was informed that the Ukrainian Supreme Court had dismissed its appeal regarding the July 2004 decision. On June 29, 2006, the Ukrainian Supreme Court held that the Arbitration Court award was valid and legal under applicable law.

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

c. Litigation: (cont.)

1. (cont.)

On September 28, 2008, the Department filed a petition (the "Petition") in the Central District Court of Israel (the "Court"), under which the Department requested the approval of the Award as a valid foreign arbitral award under the laws of the State of Israel.

During November 2008, the Company filed with the Court an objection to the Petition and a petition to declare the Award null and void. The Company's objection and petition rely on what the Company believes to be well-based evidence which the Company has against the manner under which the arbitration proceedings were conducted by the Arbitration Court and against their validness and legality. The Company believes that the arbitration proceedings were conducted partially and jeopardized its basic rights. The Company's claims are also corroborated by a contrary legal opinion written in the scope arbitration decision by one of the arbitrators ("Arbitrator").

During the years 2009 until December 2011, several court sessions where held regarding the Petition, including a testimony of the independent arbitrator, while the Department’s witnesses (including the other two Ukrainian arbitrators) did not appear in court at the times scheduled for their testimonies.

On December 5, 2011 the Company submitted a summation in writing. However, the Department has not submitted its summation and its counsel even notified the Court that his appointment as the Department’s counsel had been cancelled.

On April 15, 2012, the Court gave its judgment, pursuant to the Court dismissed the Department’s Petition and also declared the Award null and void.

2. On October 30, 2003, SuperCom Slovakia, a subsidiary (66%) of Supercom Ltd., received an award from the International Arbitral Center of the Austrian Federal Economic Chamber, in a case against the Ministry of Interior of the Slovak Republic (“the Ministry”) relating to the Agreement on Delivery of Technology, Cooperation and Services signed on March 17, 1998. Upon the Arbitral Award, the Ministry of Interior of the Slovak Republic was ordered to pay SuperCom Slovakia the amount of SKK 80,000,000 (approximately $3,464 as of December 31, 2012) plus interest accruing from March 1999. In addition, the Ministry of Interior of the Slovak Republic was ordered to pay the costs of arbitration in the amount of EUR 42,716 (approximately $56 as of December 31, 2012) and SuperCom Slovakia’s legal fees in the amount of EUR 63,611 (approximately $84 as of December 31, 2012). The Company has begun an enforcement proceeding to collect the arbitral awards. The Ministry of Interior of the Slovak Republic filed a claim with the Commercial Court in Vienna, Austria on February 10, 2004, whereby it challenged and requested to set aside the arbitral award. During September 2005, the Commercial Court of Vienna dismissed the claim. On October 21, 2005, the Ministry of the Interior of the Slovak Republic filed an appeal. On August 25, 2006, the Austrian Appellate Court rejected the appeal and ordered the Ministry to reimburse Supercom Slovakia´s costs of the appellate proceeding in the amount of EUR 6,688 within 14 days. On October 3, 2006, the Company was informed that the Ministry had decided not to file an extraordinary appeal to the Austrian Supreme Court’s decision rejecting its appeal and the award became final. To date, the Company’s efforts to enforce the Commercial Court’s decision have been unsuccessful, and the company had hired new law firm(on a success based fee) to support its enforce the award.

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

c. Litigation: (cont.)

3. On December 16, 1999, Secu-Systems Ltd. filed a lawsuit with the District Court in Tel-Aviv-Jaffa jointly and severally against the Company and its former subsidiary, InkSure Ltd. ("InkSure"), seeking a permanent injunction and damages arising from the printing method applied to certain products developed by InkSure. In its lawsuit, Secu-Systems asserted claims of breach of a confidentiality agreement between Secu-Systems and the Company, unjust enrichment of the Company and InkSure, breach of fiduciary duties owed to Secu-Systems by the Company and InkSure and misappropriation of trade secrets and damage to Secu-Systems' property. On March 15, 2006, the Court denied the breach of contract claim, but upheld the claim for misappropriation of trade secrets and ordered InkSure and the Company to cease all activity involving the use of the confidential knowledge and/or confidential information of Secu-Systems. In addition, the court ordered the Company and Inksure to provide a report certified by an accountant setting forth in full the income and/or benefit received by InkSure and the Company as a result of the infringing activity through the date of the judgment, and ordered the Company and Inksure, jointly and severally, to pay to Secu-Systems compensation in the amount of NIS 100,000 ($26 as of December 31, 2012) and legal expenses as well as attorney's fees in the amount of NIS 30,000 ($8 as of December 31, 2011) (which was paid during 2006). Secu-Systems has filed an appeal, and the Company and InkSure filed a counter-appeal, on the above ruling.

   During the years thereafter several court sessions were held, judgments were made and appeals were filed by each of the parties.

   On December 15, 2009, the court suggested that the parties try a mediation process in order to endeavor to come to an agreement. All the parties agreed to the suggestion.

   In the course of the mediation process, during 2010, a mediation agreement in principle was reached,.

   Followed On November 30, 2010, the mediator determined that the sum the Company will have to pay to Secu-System is NIS 893,000 (approximately $239 as of December 31, 2012). The mediation agreement was approved by the court on February 5, 2012.

   During 2011 the Company paid NIS 535,800 (approximately $144 as of December 31, 2012), and during 2012 the Company paid NIS 357,200(approximately $94 as of December 31, 2012) As of December 31, 2012 there is no liability related to this litigation.

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

c. Litigation: (cont.)

4. On May 7, 2012, a supplier of the Company filed a lawsuit with the Magistrate Court in Tel Aviv in the amount of NIS 360,199 (approximately $96 as of December 31, 2012) claiming mainly for payments of products which were supplied during 2011 and for payments for products which were purchased by the supplier but were refused to be received by the Company due to dissatisfaction of the Company in respect of the supplied products. The Company is denying the supplier’s claims and has its own claims against the supplier in respect of the quality of the products supplied by him. The Company had filed with the Court an objection to the Claim and a petition for a recovery by the supplier of the Company direct loses due to the supplier lack of performance. The Company's objection and petition rely on what the Company believes to be well-based evidence which the Company has against the Supplier lack of performance, major delays in delivery of products, and poor workmanship with some of the products manufactured by the supplier. A preliminary court session was held regarding the Petition, and additional court sessions are scheduled for July 2013. The balance of accounts payable with respect to the supplier as of December 31, 2012 is approximately $46, which represents the value of the supplied products during 2011. No additional provision has been recognized with respect to the supplier's claim.

NOTE 10:- INCOME TAX

a. Changes in the Israeli corporate tax rates:

On December 6, 2011, the Law for the Change in the Tax Burden (Legislative Amendments) – 2011 was publicized. As part of the law, among other things, the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010) – 2009 and the Income Tax Ordinance (New Version) – 1961 were amended whereby, commencing in 2012, the blueprint for the reduction in the corporate tax rates will be cancelled and the corporate tax rate will be 25%.

b. Non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws of the countries in which they are located.

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

NOTE 10:- INCOME TAX (cont.)

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:

	December 31, 2012	December 31, 2011
	$	$
Operating loss carry forward	10,631	11,128
Reserves and allowances	689	601
Net deferred tax assets before valuation allowance	11,320	11,729
Valuation allowance	(10,287)	(11,729)
Net deferred tax assets	1,033	-
Deferred income taxes consist of the following:		
Domestic	5,632	6,892
Valuation allowance	(4,599)	(6,892)
Net deferred tax assets	1,033	-
Foreign	4,999	4,837
Valuation allowance	(4,999)	(4,837)
	-	-

As of December 31, 2011, the Company and its subsidiaries have provided a valuation allowance in a total amount of $10,287 in respect of deferred tax assets resulting from tax loss carryforwards and other temporary differences. Management currently believes that since the Company and its subsidiaries have net profit during the 2011 and 2012, the deferred tax assets are considered to be realized in the next 2 years.

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

NOTE 10:- INCOME TAX (cont.)

d. Carryforward tax losses:

SuperCom Ltd. has accumulated losses for tax purposes as of December 31, 2012, in an amount of approximately $22,528, which may be carried forward and offset against taxable income in the future for an indefinite period. SuperCom Ltd. also has a capital loss in an amount of approximately $14,225 which may be carried forward and offset against capital gains for an indefinite period. Losses carryforwards in Israel are measured in NIS.

As of December 31, 2012, SuperCom's subsidiaries in the United States have estimated total available carryforward tax losses of approximately $14,282. In the U.S., tax losses can be carried forward for 20 years. However, utilization of U.S. net operating losses may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. These annual limitations may result in the expiration of net operating losses before utilization. An amount of $3,413 of the carryforward tax losses of the Company's subsidiary in the U.S, is subject to such limitation, due to the Security Holding Corp. acquisition in 2007.

e. SuperCom Ltd has assessments which are considered as final until the tax year ended December 31, 2007.

SuperCom's subsidiaries in the United States and Israel have not received final assessments since their incorporation.

f. Income (loss) before income tax consists of the following:

	Year ended December 31,		
	2012	2011	2010
	$	$	$
Domestic	3,917	1,359	(1,275)
Foreign	(106)	(315)	(451)
	3,811	1,044	(1,726)

g. 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, is as follows:

	Year ended December 31,		
	2012	2011	2010
	$	$	$
Income (loss) before income tax, as reported in the consolidated statements of operations	3,811	1,044	(1,726)
Statutory tax rate in Israel	25%	24%	25%
Theoretical tax (benefit) expense	953	251	(432)
Carryforward losses and other deferred taxes for which a full valuation allowance was recorded	(463)	(253)	486
Changes valuation allowance	(1,442)	-	-
Others	(54)	27	(4)
Actual income tax	(1,006)	25	50

NOTE 11:- CONVERTIBLE BONDS

In November 2006, the Company raised $3,156.5 through the issuance of Units consisting of Convertible Bonds and Warrants. Units valued at $2,500 were issued to Brevan Howard Master Fund Limited ("BH"), and Units valued at $656.5 were issued to Special Situation Funds ("SSF"), based on the participation rights provided in a private placement during 2005, which were existing shareholders of the Company. According to their original terms, the Convertible Bonds mature three years from the date of issuance and bear interest at an annual rate of 8% (which was updated as described below). Any withholding and other taxes payable with respect to the interest will be grossed up and paid by the Company (approximately 3% of the principal of the bonds), payment of interest will be net of any tax. The investors were also granted warrants entitling them to acquire a total of 134,154 ordinary shares at an original exercise price of $5 per share during the next five years (see amendments below).

In November 2007, due to a breach of certain conditions of the convertible bonds, the investors had the right to accelerate the repayment of the principal amount of the bonds with all the interest payable until the maturity date of the bonds. However, the Company signed an amendment to the agreement with the investors under which the Company was required to pay to one of the investors the abovementioned interest amount ($276) (with any withholding and other taxes payable with respect to the interest (approximately 3% of the principal of the bonds)) and in respect of the other investors, the Company changed the conversion ratio of the bonds to $4.25. In consideration, the investors waived their right to accelerate the repayment of the bonds. The Company accounted for this amendment as a modification of the bonds.

In November 2007, June 2008, August 12, 2009, following a breach of the original and the amended terms of the convertible bonds, the Company and the investor agreed to waive compliance and amend certain provisions of the Bond to, among other things, (i) increase the applicable rate of interest to 12% and by 0.5% every 180 days afterward, , (ii) make monthly payments of $41 against the total amount due under the Bond over an eight (8) year period, and (iii) increase the number of warrants granted to 159,375 and amend their exercise price to $0.40 per share . The modification was determined to be a debt extinguishment.

On November 9, 2009, the Company entered into an Amendment Agreement (the "Amendment Agreement") with SSF, the other investor (with a principal amount of $624), pursuant to the Amendment Agreement, in exchange for security in certain assets of the Company, the Company and SSF agreed to waive compliance and amend certain provisions of the Bond to, among other things, (i) increase the applicable rate of interest to 12% and by 0.5% every 180 days afterward, (ii) make monthly payments of $10 against the total amount due under the Bond over an eight (8) year period, (iii) reducing the exercise price of the bond and the warrants to $3 and $0.40, respectively and, (iv) increase the number of warrants granted to 31,238.

On August 24, 2010, BH entered into an Absolute Assignment and Transfer of Bond and Warrant ("Assignment") with Sigma Wave Ltd. ("Sigma"), an Israeli company and a Controlling shareholder of the Company. Pursuant to the Assignment, BH absolutely transfers, assigns and makes over unto Sigma all of its rights, title, obligations and interest in the Convertible Bonds and warrants accruing or growing due and outstanding as at the Closing Date (which later was determined as September 16, 2010) to BH,

On November 8, 2011, SSF sold, assigned and transferred to Mr. Eliyahu Trabelsi all of their rights under the Convertible Bonds and warrants.

The Assignments had no impact on the Company's assets or liabilities or its financial results.

NOTE 11:- CONVERTIBLE BONDS (Cont.)

As of December 31, 2010, the Company was in compliance with the covenants under the amended Convertible Bonds agreements with respect to bonds held by SSF.

During the year 2011, Sigma and Mr. Eliyahu Trabelsi had accepted the Company's debt arrangement proposal for an amount of $3,047 debt under the Convertible Bonds in accordance with the proposed arrangement of the extinguishment of liabilities (see Note 1d). The Company allotted to Sigma and Mr Trabelsi a total of 13,538,444 ordinary shares of the Company and recorded an amount of $2006 as a gain on extinguishment of debts based on the difference between the carrying amount of the liability extinguished ($3,047) and the fair value of the ordinary shares granted ($222), which was credited directly to share capital ($74) and additional paid-in capital ($148), and the fair value of the ordinary shares that the Company was committed to issue ($819). In addition an amount of $819 was credited directly to equity as “amount of liability extinguished on account of shares"

The actual allotment of 9,094,400 ordinary shares to a trustee of Sigma and to Mr. Eliyahu Trabelsi was completed in April, 2012 (see Note 11).

During 2012, Sigma Wave Ltd (“Sigma”) and Mr. Eliyahu trabelsi, convertible bond holders, had accepted the Company's debt arrangement proposal for a total amount of $3592 its outstanding debt. The Company allotted to Sigma and Mr. Eliyahu Trabelsi a total of 14,585,155 ordinary shares of the Company). In accordance with ASC Topic 470-50-40, the Company recorded an amount of $2,230 as a gain on extinguishment of debts based on the difference between the carrying amounts of the liability extinguished ($3,592) and the fair value of the ordinary shares granted ($1,367), which was credited directly to share capital ($221) and additional paid-in capital ($1,146).

NOTE 12:- SHARE CAPITAL

a. The Company's common stock is quoted under the ticker symbol “SPCBF” on the OTC Market , which operates an electronic quotation service for securities traded over-the-counter.

On May, 14 2007 a 1 for 5.88235 reverse split of the Company’s ordinary shares became effective for trading purposes. Pursuant to this reverse share split, each 5.88235 ordinary shares of NIS 0.01 par value became 1 ordinary share of NIS 0.0588235 par value.

b. During 2010, the Company increased its authorized share capital to 52,000,000 ordinary shares.

c. During 2011, 300,000 ordinary shares, were issued as settlement of liabilities to an officer in an aggregate amount of $51. Regarding ordinary shares that were issued during 2010 under a private placement. Regarding ordinary shares that were issued during 2011 and after the balance sheet date, as a part of an extinguishment of liabilities, see Notes 11.

d. **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.

e. **Stock options:**

1. 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 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, 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.

   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.

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

NOTE 12:- SHARE CAPITAL (Cont.)

e. Stock options (cont.):

2. During 2010 no options were granted.

On August 9, 2011, the Company issued options to purchase up to 150,000 shares to a former officer of the Company as part of his employment agreement. The options (the fair value of which was estimated at $6 have an exercise price of $0.11, vested immediately and will expire after five years.

On August 11, 2011, the Company issued options to purchase up to 300,000 shares to a former officer of the Company as part of the extinguishment of liabilities (see Note 1d). The options (the fair value of which was estimated at $36, based on the Company’s share market price at the date the extinguishment was determined) have an exercise price of $0.00, vested immediately and will expire on December 31, 2012.

On August 24, 2011, the Company issued options to purchase up to 385,000 shares to several employees of the Company. The options (the fair value of which was estimated at $18) have an exercise price of $0.20, 155,000 of them vested on January 1, 2012, and the remaining 230,000 will vest on January 1, 2013. The options will expire after ten years.

During 2012 no options were granted.

3. A summary of the Company's stock option activity and related information is as follows:

	Year ended December 31					
	2012		2011		2010	
	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	2,163,857	0.79	1,404,219	1.23	1,489,176	1.34
Granted	-	-	835,000	0.11	-	-
Exercised	(342,121)	0.00	(10,007)	0.02	(11,007)	0.016
Canceled and forfeited	(1,273,689)	1.61	(65,355)	1.74	(73,950)	3.52
Outstanding at end of year	548,047	0.97	2,163,857	0.79	1,404,219	1.23
Exercisable at end of year	393,047	1.27	1,778,857	0.92	1,404,219	1.23

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

NOTE 12:- SHARE CAPITAL (Cont.)

e. Stock options (cont.):

3. A summary of the Company's stock option activity and related information is as follows (cont.):

The weighted average fair value of options granted during the reported periods (excluding 300,000 options granted in 2011 as part of the extinguishment of liabilities) was $0.05 per option for the year ended December 31, 2011. In 2010 and 2012 no options were granted.

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 2011 grants: risk-free rate of 0.76%, dividend yield of 0%, expected volatility factor of 176.54% and expected term of 4.64 year.

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 share-based employee compensation awards were $7, $10, and $14 for the years ended December 31, 2012, 2011 and 2010, respectively.

The following table summarizes the allocation of the stock-based compensation charge

	Year ended December 31,		
	2012	2011	2010
	$	$	$
Cost of revenues	1.5	2	3
Research and development expenses	4	5	2
Selling and marketing expenses	-	-	3
General and administrative expenses	1.5	3	6
	7	10	14

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

NOTE 12:- SHARE CAPITAL (Cont.)

e. Stock options (cont.):

3. A summary of the Company's stock option activity and related information is as follows (cont.):

The options outstanding and exercisable as of December 31, 2012, have been separated into ranges of exercise prices as follows:

Range of exercise price	Options outstanding as of December 31, 2012	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value	Options exercisable as of December 31, 2012	Weighted average exercise price	Aggregate intrinsic value
$							
0.00 - $ 0.20	445,997	6.74	0.15	-	290,997	0.13	-
2.47 - $ 3.38	14,450	1.24	3.06	-	14,450	3.06	-
4.12 - $ 4.64	42,400	3.94	4.44	-	42,400	4.44	-
5.00 - $ 5.24	45,200	2.08	5.10	-	45,200	5.10	-
	548,047		0.97		393,047	1.27	

The total intrinsic value of options exercised during the years ended December 31, 2012 2011 and 2010 was $0, $1, and $1, respectively, based on the Company’s average stock price of $ 0.14, $0.10, and $0.14, during the years ended on those dates respectively.

A summary of the status of the Entity’s non-vested options granted to employees as of December 31, 2012 and changes during the year ended December 31, 2012 is presented below:

	Options	Weighted–average grant-date fair value
Non-vested at January 1, 2012	385,000	$ 0.05
Granted		
Vested (including cancelled and exercised)	(230,000)	0.05
Forfeited	-	-
Non-vested at December 31, 2012	155,000	$ 0.05

As of December 31, 2012, there was $3 of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the stock option plans.

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

NOTE 12:- SHARE CAPITAL (Cont.)

f. Private placements and warrants:

1. During 2010, warrants to acquire up to 1,759,988 shares were granted, of which 553,846, with an exercise price of $0.15 per share were granted to an investor as a part of private placement (see 4 below) and 1,206,142 of which, with an exercise price of $0.00 per share were granted to certain creditors as part of the extinguishments of liabilities (see Note 1d). The fair market value of the warrants granted under the debt extinguishment is $147, based on the Company's share market price at the date when the extinguishment was determined.

   During 2011, warrants to purchase up to 1,081,871 shares with an exercise price of $0.00 per share were granted to certain creditors as part of the extinguishments of liabilities (see Note 1d). The fair market value of the warrants granted is $143, based on the Company's share market price at the date when the extinguishment was determined.

   During 2012, warrants to purchase up to 1,384,456 shares with an exercise price of $0.00 per share were granted to certain creditors as part of the extinguishments of liabilities (see Note 1d). The fair market value of the warrants granted is $124, based on the Company's share market price at the date when the extinguishment was determined.

2. A summary of the Company's warrants activity to consultants and investors (including warrants issued in connection with convertible bonds and extinguishment of liabilities), and related information is as follows:

	Year ended December 31,					
	2012		2011		2010	
	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	3,002,859	0.36	2,157,002	0.36	658,706	2.70
Granted	1,384,456	0.00	1,081,871	0.00	1,759,988	0.05
Exercised	(712,808)	0.41	-	-	-	-
Canceled and forfeited	-	-	(236,014)	1.24	(261,692)	3.53
Outstanding at end of year	3,674,507	0.13	3,002,859	0.16	2,157,002	0.36
Exercisable at end of year	3.674,507	0.13	3,002,859	0.16	2,157,002	0.36

(*) The Weighted average exercise price is after re-pricing of the exercise price related to the convertible bond holders.

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

NOTE 12:- SHARE CAPITAL (Cont.)

f. Private placements and warrants (cont.):

2. (cont.)

The warrants to consultants and investors (including warrants issued in connection with convertible bonds and extinguishment of liabilities), outstanding and exercisable as of December 31, 2012, have been separated into ranges of exercise prices as follows:

Range of exercise price	Warrants outstanding and exercisable as of December 31, 2012	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value
	-		$	$
$ 0.00	2,959,661	0.23	0.00	266
$ 0.15 - $ 0.65	633,846	2.05	0.21	-
$ 2.50 - $ 3.53	20,000	0.38	3.38	-
$ 4.42 - $ 4.85	61,000	1.07	4.72	-
	3,674,507		0.13	

3. The fair value of all the warrants granted as described above was measured based on the fair value of the instruments issued on the date of grant, since, based on the opinion of Company Management, such measurement is more reliable than the fair value of services.

4. On March 22, 2010, the Company entered into a Subscription Agreement with a private investor, Mr. Yitzchak Babayov (the "Investor"), pursuant to which at a March 23, 2010 closing, the Company issued 1,538,461 ordinary shares of the Company at a par value of NIS 0.0588235 (the "Transaction Shares") in consideration of a onetime cash payment in the amount of $200.

Concurrent with the execution of the Subscription Agreement, the Company and the Investor entered into a Warrant Agreement pursuant to which the Investor received a warrant (the "Warrant") to purchase up to 553,846 ordinary shares of the Company for an exercise price of $0.15 per share. The Warrant has a term of five (5) years and contains standard adjustments for stock dividends, stock splits, reclassification and similar events. The Company's shareholders approved and ratified at the annual general meeting held on September 12, 2010, that the purpose of the private placement of the Transaction Shares and Warrant was to provide the Investor with more than twenty five percent (25%) of the Company's issued and outstanding shares as of the date of the agreement in accordance with Israeli law, which exempts such an acquisition from Israeli tender offer requirements

The Transaction Shares and the ordinary shares issuable upon the exercise of the Warrant have not been registered under the Securities Act and may not be offered or sold except pursuant to an effective registration statement or an applicable exemption from the registration requirements of the Securities Act.

NOTE 12:- SHARE CAPITAL (Cont.)

g. 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.

h. Convertible bonds and warrants issued to the convertible bond holders – see Note 11.

NOTE 13:- RELATED PARTY TRANSACTIONS

a. On October 1, 2001, the Company entered into a consulting agreement with a company owned by a former Chairman of the Board of Directors, who also was one of the co-founders of the Company.

In consideration of these consulting services, the Company has undertaken to pay $10.5 per month plus motor vehicle expenses. In addition the Company was required to pay $1.5 per month as a director's fee. During 2009 the Company paid in cash $32, pursuant to this agreement. Regarding the partial payment in options during 2009, see Note 13d below and regarding debt extinguishment during 2010, see Note 13e below.

On July 8, 2010, the Board of Directors accepted the resignation from the board of directors of the Chairman of the Board of Directors, effective July 25, 2010. The Company recorded during 2010 an expense of $75 related to the former consulting agreement. In addition, on July 8, 2010, the Company entered into a Services Agreement with the former Chairman of the Board of Directors and as of that date one of the Company's major shareholders (the "Service Provider"), effective immediately, pursuant to which the parties terminated the former consulting agreement and agreed that the Service Provider will provide the Company with ongoing consulting services as may be reasonably required by the Company, for a consideration of 2% of the Company's gross receipts from a major customer and indemnification of reasonable costs and expenses incurred by the Service Provider.

During 2012 , 2011 and 2010, the Company recorded an expense of $ 24, $130 and $83, respectively, in accordance with the Services Agreement, which was terminated On July 7, 2012

NOTE 13:- RELATED PARTY TRANSACTIONS (Cont.)

b. On October 1, 2001, the Company entered into a consulting agreement with a company owned by a former member of the Company's Board of Directors, who was one of the Company's co-founders and a principal shareholder. On January 13 2005, the General Shareholders Meeting approved, inter-alia, the following amendments to the consulting agreement:

- As of the date of the approval of the General Shareholders Meeting, the consideration shall be an amount of $7 per month.

- Upon the termination of the car lease agreement in March 2005, to increase the car lease, to a price of up to NIS 4,200 (approximately $1.1 as of December 31, 2011), (excluding tax) per month.

In addition, the Company was required to pay $1.5 per month as a director’s fee.

During 2009 the Company paid in cash $22 pursuant to this agreement. Regarding the partial payment in options during 2009, see below Note 13d and regarding debt extinguishment during 2010 see Note 13e below.

On July 8, 2010, the Board of Directors accepted the resignation from the board of directors of the member of the Company's Board of Directors, effective immediately. The Company recorded during 2010 an expense of $53 related to the former consulting agreement. In addition, on July 8, 2010, the Company entered into a Services Agreement with the former member of the Board of Directors and as of that date one of the Company’s major shareholders (the “Service Provider”), effective immediately, pursuant to which the parties terminated the former consulting agreement and agreed that the Service Provider will provide the Company with management services with respect to the Company’s certain project for a consideration of (i) a monthly fee of $3, (ii) indemnification of reasonable costs and expenses incurred by the Service Provider, and (iii) the Company will provide the Service Provider with a cellular phone and an automobile. The Company shall also grant the Service Provider options to purchase up to 50,000 ordinary shares of the Company according to terms to be determined by the Board of Directors, which terms have not yet been determined by the date of approval of the financial statements.

During 2012, 2011 and 2010, the Company recorded an expense of $18, $63 and $38, respectively, in accordance with the Services Agreement, which was terminated On July 7, 2012.

NOTE 13:- RELATED PARTY TRANSACTIONS (Cont.)

c. On October 1, 2001, the Company entered into a consulting agreement with a company owned by one of the co-founders of the Company.

In consideration for these services, the Company was required to pay $4.6 per month plus motor vehicle expenses. During 2009 the Company paid in cash $15 pursuant to this agreement. Regarding the partial payment in options during 2009, see Note 13d below and regarding debt extinguishment during 2010 see Note 13e below.

The Company recorded during 2010 an expense of $37 related to the former consulting agreement. On July 8, 2010, the Company entered into a Services Agreement with the co-founder of the Company and as of that date one of the Company’s major shareholders (the “Service Provider”), effective immediately, pursuant to which the parties terminated the former consulting agreement and agreed that the Service Provider will provide the Company with ongoing consulting services as may be reasonably required by the Company for a consideration of a monthly fee of $3 and indemnification of reasonable costs and expenses incurred by the Service Provider in connection with the services. The Company shall also grant the Service Provider options to purchase up to 100,000 ordinary shares of the Company according to terms that will be determined by the Board of Directors, which terms have not yet been determined by the date of approval of the financial statements.

During 2012, 2011 and 2010, the Company recorded an expense of $19, $39 and $21, respectively, in accordance with the Services Agreement which was terminated On July 7, 2012

d. On December 21, 2008, the Special General Meeting of Shareholders approved that as part of a cost cutting plan, all of the Company's non-external directors, will join a temporary arrangement pursuant to which the remuneration payable to them shall be paid in fully vested options to purchase shares of the Company instead of in cash, effective October 1, 2008, for a minimum period of three months, with an option to the Company to extend it from time to time for additional consecutive periods of up to twelve (12) months in the aggregate. During 2009, an aggregated number of options to purchase up to 478,543 of the Company’s ordinary shares were granted to the Company’s non-external directors as part of the cost cutting plan. The options have an exercise price of 0.0582235 NIS per share, vesting immediately, and will expire after ten years.

e. As part of the debt extinguishment plan of the Company (see also Note 1d) and in accordance with their Services Agreement, the abovementioned Service Providers agreed to a partial forgiveness of the debts due to them under the former consulting agreements accrued from October 1, 2009 until July 8, 2010 which total amount was $245 and agreed to repayment in 1,083,071 warrants to purchase ordinary shares of the Company as consideration for the entire debts due. The fair value of the warrants was estimated as $130. The difference between the carrying amount of the amounts due and the fair value of the warrants was recognized as a capital gain. During 2012, 589,737 warrants were exercised.

NOTE 13:- RELATED PARTY TRANSACTIONS (Cont.)

f. On July 25, 2010, the Board of directors of the Company elected Mrs. Tsviya Trabelsi to serve as the Chairman of the Board of Directors. 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 and the sister of one of the members of the Company's board of directors. On May 12, 2011, the special general meeting approved the Service Agreement of the Company's chairman of the board of directors whereby, her monthly fee will be calculated every month at 60% of the Company's chief executive officer's monthly cost. In addition to the above consideration, the Company shall 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 from the board 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 and served as the chairman of the board effective immediately. The general Assembly on December 27, 2012, approved the appointment of Mrs. Tsviya Trabelsi as its new Chairman, Her management services fees are subjected to the approval of the next general meeting and are expected to be the same as those approved by the general assembly on May 2012

g. Mr. Trabelsi serves as the chief executive officer of the Company from June 1, 2012, and has served as the chairman of the Company's board from December 12, 2011. Mr. Arie Trabelsi is the sole director of Sigma Wave Ltd., which is the controlling shareholder of the Company, His management services fees are subjected to the approval of the next general meeting and are expected to be the same as those approved by the general assembly on May, 2012.

h. As of December 31, 2012, the Company accrued $226 as expenses arising from all related parties providing consulting services.

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

NOTE 14:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION

a. Summary information about geographic areas:

The Company manages its business on the basis of one reportable segment (see Note 1 for a brief description of the Company's business) and follows the requirements of ASC Topic 280, "Segment Reporting".

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,					
	2012		2011		2010	
	Total Revenues	Property and Equipment, net	Total revenues	Property and Equipment, net	Total revenues	Property and Equipment, net
	$	$	$	$	$	$
East European country (*)	8,637	-	7,498	-	6,770	-
United States	217	17	344	24	536	37
Israel	86	76	80	72	83	73
	8,940	93	7,922	96	7,389	110

- 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.

(*) Due to a demand of the customer, the name of the specific country cannot be disclosed.

b. Summary of revenues from external customers of the continued operations based on products and services:

	Year ended December 31,		
	2012	2011	2010
	$	$	$
Raw materials and equipment	3,856	5,822	3,822
Maintenance, royalties and project management	5,084	2,100	3,567
	8,940	7,922	7,389

c. Major customer data as a percentage of total sales from external costumers of the continued operations:

	Year ended December 31,		
	2012	2011	2010
Customer A	64%	95%	92%

NOTE 15:- OTHER (INCOME) EXPENSES

	Year ended December 31, 2012	2011	2010
	$	$	$
Gain on prior years subcontract provision	(323)	-	-
Capital loss on disposal of property and equipment	-	6	-
Doubtful debt provision	1,595		
Gain on extinguishment of debts (*)	(187)	(143)	(124)
Capital gain on sale of subsidiary	-	-	(272)
Net total	1,085	(137)	(396)

(*) Comprised of the capital gain on extinguishment of working capital related liabilities (employees, service providers etc.). See also Note 1.

Bad debt

The following is a summary of the allowance for doubtful accounts related to accounts receivable for the years ended December 31:

	Balance at beginning of period	provision of period	Balance at end of period
		USD (in thousands)	
2010	3,470	(1,937)	1,553
2011	1,553	(1,419)	134
2012	134	1,592	1,726

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

NOTE 16:- FINANCIAL (EXPENSES) INCOME, NET

	Year ended December 31,		
	2012	2011	2010
	$	$	$
Financial expenses:			
Interest, amortization of discount, bank charges and fees (*)	(425)	(1,021)	(621)
Exchange differences	-	-	(57)
Total financial expenses	(425)	(1,021)	(678)
Financial income:			
Gain on extinguishment of convertible bonds (**)	2,230	2,006	-
Exchange differences	-	5	-
Interest	-	-	-
Total financial income	2,230	2,011	-
Net total	1,805	990	(678)

(*) In 2012, 2011 and 2010, includes expenses of $445, $968, and $586 related to convertible bonds, respectively. (See Note 11 above).

(**) See Note 1

REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM
TO THE SHAREHOLDERS OF
VUANCE LTD.

Fahn Kanne & Co.
Head Office
Levinstein Tower
23 Menachem Begin Road
Tel-Aviv 66184, ISRAEL
P.O.B. 36172, 61361

T +972 3 7106666
F +972 3 7106660
www.gtfk.co.il

We have audited the accompanying consolidated balance sheets of Vuance Ltd. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' deficit and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audit 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, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vuance Ltd. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations, and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1f to the financial statements, the Company has incurred substantial recurring losses and negative cash flows from operations and, as of December 31, 2011, the Company had a working capital deficit and total shareholders' deficit. These conditions, along with other matters as set forth in Note 1f, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 1f. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Fahn Kanne & Co. Grant Thornton Israel
May 9, 2012

ITEM 19. Exhibits.

Exhibit Number	Description
1.1 [1]	Memorandum of Association of the Company.
1.2 [7]	Articles of Association of the Company.
2.1 [1]	Forms of Stock Certificates Representing ordinary shares.
4.1 [1]	The SuperCom Ltd. 1999 Employee Stock Option Plan (as Amended and Restated in 2002).
4.2(a) [7]	The SuperCom Ltd. 2003 Israeli Share Option Plan.
4.2(b) [7]	The SuperCom Ltd . 2007 U.S. Stock Option Plan
4.3 [3]	Asset Purchase Agreement by and among Intelli-Site, Inc., Integrated Security Systems, Inc., Vuance, Inc. and SuperCom Ltd. dated as of March 6, 2009.
4.4 [5]	Agreement for Purchase and Sale of Business Assets between Vuance, Inc. and OLTIS Security Systems International, LLC, dated as of January 9, 2010.
4.5 [5]	Asset Purchase Agreement between SuperCom Ltd., Vuance, Inc., WidePoint Corporation and Advance Response Concepts Corporation, dated as of January 29, 2010.
4.6 [4]	Subscription Agreement and Warrant Agreement between SuperCom Ltd. and Mr. Yitzchak Babayov, dated as of March 22, 2010.
4.7 [6]	Share Purchase Agreement for the sale of SuperCom Asia Pacific Ltd. between SuperCom Ltd. and Mr. Steven Slom, Adv. as trustee for an undisclosed purchaser, dated October 21, 2010.
4.8 [6]	Financing Agreement between SuperCom Ltd. and Sigma Wave Ltd., dated March 30, 2011.
8	List of Subsidiaries of SuperCom Ltd.
11.1 [2]	Code of Ethics.
12.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
12.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
13.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
13.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
15.1 [7]	Consent of Fahn, Kanne & Co., a member of Grant Thornton, dated May 9, 2012 .
15.2	Consent of Deloitte Brightman Almagor Zohar & Co. a member firm of Deloitte Touche Tohmatsu dated April 24, 2013 .
101	The following materials from our Annual Report on Form 20-F for the year ended December 31, 2012 formatted in XBRL (eXtensible Business Reporting Language) are furnished herewith: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, and (iii) the Statements of Changes in Shareholders' Deficit, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.

---

[1] Previously filed as an exhibit to, and incorporated herein by reference from, the Company’s Annual Report on Form 20-F filed on September 14, 2004.

[2] Previously filed as an exhibit to, and incorporated herein by reference from, the Company’s Annual Report on Form 20-F filed on June 30, 2008.

[3] Previously filed as exhibits to, and incorporated herein by reference from, the Company’s Annual Report on Form 20-F filed on June 30, 2009.

[4] Previously filed as exhibits to, and incorporated herein by reference from, Exhibit 10.1 and 10.2 to the Company’s report on Form 6-K submitted on April 7, 2010.

[5] Previously filed as an exhibit to, and incorporated herein by reference from, the Company’s Annual Report on Form 20-F filed on July 23,

2010.

[6] Previously filed as exhibits to, and incorporated herein by reference from, the Company's Annual Report on Form 20-F filed on June 13, 2011.

[7] Previously filed as exhibits to, and incorporated herein by reference from, the Company's Annual Report on Form 20-F filed on May 9, 2012.

SIGNATURE

SuperCom Ltd. 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**

Date: April 24, 2013

Exhibit 8

SUBSIDIARIES OF SUPERCOM LTD. AS OF APRIL 30, 2012

Name of Subsidiary	Jurisdiction of Organization	Percent Owned
Vuance Inc.	United States	100%
Vuance RFID Inc.*	United States	100%
S.B.C. Aviation Ltd.	Israel	100%
SuperCom Slovakia A.S.	Slovakia	66%
PureRFid Inc.	United States	100%

* Vuance RFID Inc. has an Israeli wholly-owned subsidiary, Vuance RFID Ltd.

Exhibit 12.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

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 registrant as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-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 the financial reporting; and

5. The Company's other certifying officer(s) 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 functions):

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 registrant'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 registrant's internal control over financial reporting.

Date: April 24, 2013

/s/ Arie Trabelsi

Arie Trabelsi
Chief Executive Officer

Exhibit 12.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Meira Zada, 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 registrant as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-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 the financial reporting; and

5. The Company's other certifying officer(s) 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 functions):

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 registrant'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 registrant's internal control over financial reporting.

Date: April 24, 2013

/s/ Meira Zada

Chief Financial Officer and Principal Accounting Officer

Exhibit 13.1

SECTION 906 CERTIFICATION

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of SuperCom Ltd. (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Annual Report on Form 20-F for the fiscal year ended December 31, 2012 (the “Form 20-F”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act of 1934, and the information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 24, 2013

/s/ Arie Trabelsi

By: Arie Trabelsi
Title: Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 13.2

SECTION 906 CERTIFICATION

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of SuperCom Ltd. (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Annual Report on Form 20-F for the fiscal year ended December 31, 2011 (the “Form 20-F”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act of 1934, and the information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 24, 2013

/s/ Meira Zada

By: Meira Zada
Title: Chief Financial Officer and Principal Accounting Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 15.2

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 of our report, dated March 21, 2013, relating to the consolidated financial statements of SuperCom Ltd ("the Company") for the year ended December 31, 2012, appearing in this Annual report on Form 20-F of the Company.

/s/ Brightman Almagor Zohar & Co.

Certified Public Accountants

A member of Deloitte Touche Tohmatsu

Tel Aviv, Israel

April 24, 2013