

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

FORM 20-F/A
(Amendment No. 1)

(Mark One)

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, 2023

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report

Commission file number: 001-33668

SUPERCOM LTD.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

**3 Rothschild Street
Tel Aviv 6688106, Israel**
(Address of principal executive offices)

**Ordan Trabelsi, Chief Executive Officer
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(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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Ordinary Shares, NIS 2.5 Par Value	SPCB	The NASDAQ Capital Market

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

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

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

Ordinary Shares, par value NIS 2.5 per share: 13,291,028 issued and outstanding (as of December 31, 2023)

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

U.S. GAAP

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

Other

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

This annual report on Form 20-F is incorporated by reference into the registrant’s Registration Statements on Form S-8, File No. [333-175785](#), [333-121231](#), and on Form F-3 File No. [333-261442](#)

Explanatory Note

This Amendment No. 1 on Form 20-F/A (this “Amendment No. 1”) to the Annual Report on Form 20-F of SuperCom Ltd. (the “Company”) for the fiscal year ended December 31, 2023, originally filed with the U.S. Securities and Exchange Commission on April 22, 2024 (the “Original Filing”), is being filed solely to include (i) the Company’s Consolidated Statement of Operations and comprehensive loss, changes in shareholders’ equity and cash flows for the year ended December 31, 2021 and the related notes for the year ended December 31, 2021 (collectively, the “2021 Financials”), as required by Form 20-F (ii) the report of the Company’s independent registered public accounting firm dated August 14, 2024 related to the audit of the 2021 Financials, (iii) updated Item 5. Operating and Financial Review and Prospects revised to include an applicable discussion of the Company’s results of operations for the Company’s fiscal year ended December 31, 2021, and (iv) and certain other related and typographical changes.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), this Amendment No. A also amends Item 19 of the Original Filing to include new updated certifications, as Exhibits 12.1, 12.2, 13.1 and 13.2, from the Company’s Chief Executive Officer and Acting Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

Except as described above, no other changes have been made to the Original Filing, and this Amendment No. 1 does not modify, amend or update in any way any of the financial or other information contained in the Original Filing. This Amendment No. 1 is not intended to, nor does it, reflect events occurring after the filing of the Original Filing, and does not modify or update the disclosures therein in any way other than as required to reflect the changes described above. Information not affected by this Amendment No. 1 remains unchanged and reflects the disclosures made at the time the Original Filing was filed. Therefore, this Amendment No. 1 should be read in conjunction with any documents incorporated by reference herein and the Company’s other filings made with the SEC subsequent to the filing of the Original Filing.

INTRODUCTION

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

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

e-Gov

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

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

IoT and Connectivity

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

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

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

Connectivity

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

Cyber Security

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

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

SELECTED FINANCIAL DATA

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

The following summary consolidated financial data for and as of the five years ended December 31, 2023 are derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our audited consolidated financial statements for the three years ended December 31, 2023, 2022 and 2021 appear elsewhere in this Annual Report. Certain of our selected consolidated financial data for the years ended December 31, 2019, 2020 and 2021 have been derived from our audited consolidated financial statements not included in this Annual Report on Form 20-F (this "Annual Report").

Income Statement Data:

	Year Ended December 31,				
	2023	2022	2021	2020	2019
	<i>(U.S. dollars in thousands, except per share data)</i>				
Summary of Statement of Operations Data:					
Revenues	26,570	17,649	12,267	11,770	16,475
Cost of revenues	16,347	11,261	6,063	6,189	10,127
Gross profit	10,223	6,388	6,204	5,581	6,348
Operating expenses:					
Research and development	3,110	3,412	2,763	2,386	3,971
Selling and marketing	2,200	2,657	1,655	1,721	3,526
General and administrative	5,460	5,186	4,149	4,074	5,389
Other (income) expenses	2,812	1,138	4,374	1,149	1,635
Total operating expenses	13,582	12,393	12,941	9,330	14,521
Operating loss	(3,359)	(6,005)	(6,737)	(3,749)	(8,173)
Financial expenses, net	(663)	(1,751)	(3,396)	(4,113)	(3,289)
loss before income tax	(4,022)	(7,756)	(10,133)	(7,862)	(11,462)
Income tax (expense) benefit	-	299	(5)	(5)	(43)
Net (loss)	(4,022)	(7,457)	(10,138)	(7,867)	(11,505)
Per Share Data:					
Basic loss per share	(0.6)	(2.8)	(3.9)	(4.5)	(7.1)
Diluted loss per share	(0.6)	(2.8)	(3.9)	(4.5)	(7.1)

	2023	2022	2021	2020	2019
	<i>(U.S. dollars in thousands, except per share data)</i>				
Summary of Balance Sheet Data:					
Cash and cash equivalents and restricted cash	5,577	4,505	4,604	3,952	1,210
Total Current Assets	28,462	26,290	26,108	24,942	23,147
TOTAL ASSETS	44,753	42,040	42,119	40,344	40,004
Total Current Liabilities	5,403	5,239	5,603	19,599	14,313
Total Long-term Liabilities	34,535	33,670	32,124	15,827	17,359
SHAREHOLDERS' EQUITY	4,816	3,131	4,392	4,919	8,332

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

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

In this Annual Report, unless otherwise specified or unless the context otherwise requires, all references to “\$” or “dollars” are to U.S. dollars and all references to “NIS” are to New Israeli Shekels. Except as otherwise indicated, the financial statements of and information regarding SuperCom are presented in U.S. dollars in accordance with generally acceptable accounting principles in the United States (“U.S. GAAP”). The representative rate exchange rate between the NIS and the dollar as published by the Bank of Israel and effective on December 31, 2023, was NIS 3.627 per \$1.00.

This Annual Report contains various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. Statements which use the terms “anticipate,” “believe,” “expect,” “plan,” “intend,” “estimate” and similar expressions are intended to identify forward looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof. We have attempted to identify significant uncertainties and other factors affecting forward-looking statements in the section captioned “Risk Factors” that appears in this Annual Report in Item 3D “Key Information - Risk Factors.”

TABLE OF CONTENTS

ITEM 1.	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
ITEM 2.	<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
ITEM 3.	<u>KEY INFORMATION</u>	1
A.	Reserve	1
B.	Capitalization and Indebtedness	1
C.	Reasons for the Offer and Use of Proceeds	1
D.	Risk Factors	1
ITEM 4.	<u>INFORMATION ON THE COMPANY</u>	16
A.	History and Development of the Company	16
B.	Business Overview	18
C.	Organizational Structure	27
D.	Property, Plants and Equipment	28
ITEM 4A.	<u>UNRESOLVED STAFF COMMENTS</u>	29
ITEM 5.	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	29
A.	Operating Results	29
B.	Liquidity and Capital Resources	33
C.	Research and Development, Patents and Licenses, etc.	39
D.	Trend Information	39
E.	Off-Balance Sheet Arrangements	39
F.	Tabular Disclosure of Contractual Obligations	
ITEM 6.	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	40
A.	Directors and Senior Management	40
B.	Compensation	41
C.	Board Practices	42
D.	Employees	50
E.	Share Ownership	51
ITEM 7.	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	53
A.	Major Shareholders	53
B.	Related Party Transactions	53
C.	Interests of Experts and Counsel	53
ITEM 8.	<u>FINANCIAL INFORMATION</u>	53
A.	Consolidated Statements and Other Financial Information	53
B.	Significant Changes	54
ITEM 9.	<u>THE OFFER AND LISTING</u>	54
A.	Offer and Listing Details	54
B.	Plan of Distribution	55
C.	Markets	55
D.	Selling Shareholders	55
E.	Dilution	55
F.	Expenses of the Issue	55

ITEM 10.	<u>ADDITIONAL INFORMATION</u>	56
A.	Share Capital	56
B.	Memorandum and Articles of Association	61
C.	Material Contracts	61
D.	Exchange Controls	61
E.	Taxation	61
F.	Dividends and Paying Agents	66
G.	Statement by Experts	66
H.	Documents on Display	66
I.	Subsidiary Information	66
ITEM 11.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS</u>	66
ITEM 12.	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	67
ITEM 13.	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	67
ITEM 14.	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	67
ITEM 15.	<u>CONTROLS AND PROCEDURES</u>	67
ITEM 16.	<u>[RESERVED]</u>	68
ITEM 16A.	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	68
ITEM 16B.	<u>CODE OF ETHICS</u>	68
ITEM 16C.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	68
ITEM 16D.	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	69
ITEM 16E.	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	69
ITEM 16F.	<u>CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	69
ITEM 16G.	<u>CORPORATE GOVERNANCE</u>	69
ITEM 16H.	<u>MINE SAFETY DISCLOSURE</u>	69
ITEM 16I.	<u>DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS</u>	69
ITEM 16J.	<u>INSIDER TRADING POLICIES</u>	69
ITEM 16K.	<u>CYBERSECURITY</u>	70
ITEM 17.	FINANCIAL STATEMENTS	71
ITEM 18.	FINANCIAL STATEMENTS	71
ITEM 19.	EXHIBITS	72
SIGNATURES		78

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. [RESERVED]

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

In the last three fiscal years ended December 31, 2023, we depended on orders from large customers for a substantial portion of our revenues. The loss of all or any of these customers or a decrease in their orders could adversely impact our business, operating results and financial condition.

In the year ended December 31, 2023, 59% of our consolidated net revenue is attributable to sales to two large customer.

In the year ended December 31, 2022, 36% of our consolidated net revenue is attributable to sales to one large customer.

In the year ended December 31, 2021, 10% of our consolidated net revenue is attributable to sales to two large customers.

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

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

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

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

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

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

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

Our business plan is subject to the risks of technological uncertainty, which may result in our products failing to be competitive or readily accepted by our target markets.

There can be no assurance that our research and development efforts will be successful. In addition, the technology that we integrate or that we may expect to integrate with our product and service offerings is rapidly changing and developing. We face risks associated with the possibility that our technology may not function as intended and the possible obsolescence of our technology and the risks of delay in the further development of our own technologies. In addition, any service interruption that results in the unavailability of our system or reduces its capacity could result in real or perceived public safety issues that may affect customer confidence in our services. Such instances may result in loss of customer accounts or similar problems if they occur again in the future. Given rapidly changing technologies, we are not certain that we will be able to adapt the use of our services to permit, upgrade, and expand our systems or to integrate smoothly with new technologies. Network and information systems and other technologies are critical to our business activities. Network and information systems-related events, including those caused by us, our service providers or by third parties, such as computer hacking, cyber-attacks, computer viruses, or other destructive or disruptive software, process breakdowns, denial of service attacks, malicious social engineering or other malicious activities, or any combination of the foregoing could result in a degradation or disruption of our services. These types of events could result in a loss of customers and large expenditures to repair or replace the damaged properties, networks or information systems or to protect them from similar events.

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

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

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

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

If we do not generate sufficient cash from operations, we will be required to obtain additional financing or reduce our level of expenditure. If we are unable to obtain adequate financing, when we require it, our business, financial condition and results of operations could be adversely affected. Such financing may not be available in the future, or, if available, may not be on terms favorable to us.

Historically, we had loss from operations during the last seven years ended December 31, 2023 and have funded our business operations and capital expenditures primarily through equity and/or debt issuances (including convertible securities). To support our growing business, we must have sufficient capital to continue to make significant investments in our platform and product offerings. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to those of our ordinary shares, and our existing shareholders may experience dilution. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. Any refinancing of our existing indebtedness could be at significantly higher interest rates, require additional restrictive financial and operational covenants, or require us to incur significant transaction fees, issue warrants or other equity securities, or issue convertible securities. These restrictions and covenants may restrict our ability to finance our operations and engage in, expand, or otherwise pursue our business activities and strategies. Our ability to comply with these covenants and restrictions may be affected by events beyond our control, and breaches of these covenants and restrictions could result in a default and an acceleration of our obligations under a debt agreement. If we raise additional funds through collaborations and licensing arrangements, we might be required to relinquish significant rights to our technologies or our solutions under development, or grant licenses on terms that are not favorable to us, which could lower the economic value of those programs to us.

We evaluate financing opportunities from time to time, and our ability to obtain financing will depend, among other things, on our development efforts, business plans and operating performance and the condition of the capital markets at the time we seek financing. We cannot be certain that additional financing will be available to us on favorable terms, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, this would have the potential to decrease both our ability to attain profitability and our financial flexibility, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and our business, financial condition and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the cost, performance and reliability of our products and services compared to the products and services of our competitors;
- customer perception of the benefits of our products and solutions;
- public perception of the intrusiveness of these solutions and the manner in which organizations use the information collected;

- public perception of the privacy protection for their personal information;
- customer satisfaction with our products and services; and
- marketing efforts and publicity for our products and services.

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

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

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

Our operating results may be adversely affected by unfavorable economic and market conditions and the uncertain geopolitical environment.

Challenging economic conditions worldwide have from time to time contributed, and may continue to contribute, to slowdowns in the communications and networking industries at large, as well as in specific segments and markets in which we operate, resulting in:

- Increased price competition for our products, not only from our competitors but also as a consequence of customers disposing of unutilized products
- Risk of excess and obsolete inventories
- Risk of supply constraints
- Risk of excess facilities and manufacturing capacity
- Higher overhead costs as a percentage of revenue and higher interest expense

During the fiscal year ended December 31, 2023, we continued to see a more broad-based weakening in the global macroeconomic environment which impacted our commercial and enterprise markets. We also experienced continuing weakness in the service provider market and emerging countries, and we expect ongoing uncertainty in these markets. Additionally, instability in the global credit markets, the impact of uncertainty regarding global central bank monetary policy, the instability in the geopolitical environment in many parts of the world including as a result of Russia's hostile activities in Ukraine, the Israel Hamas war, the current economic challenges in China, including global economic ramifications of Chinese economic difficulties, and other disruptions may continue to put pressure on global economic conditions. If global economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate further, we may experience material impacts on our business, operating results, and financial condition.

Potential political, economic and military instability in the State of Israel, where some of our offices, members of our management team, and our production and research and development facilities are located, may adversely affect our results of operations.

Our principal executive office and research and development facilities are located in Israel. In addition, majority of our senior management, several of our employees, majority of our officers and directors are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and groups in its neighboring countries, Hamas (an Islamist militia and political group that has historically controlled the Gaza Strip) and Hezbollah (an Islamist militia and political group based in Lebanon). In addition, several countries, principally in the Middle East, restrict doing business with Israel, and additional countries may impose restrictions on doing business with Israel and Israeli companies whether as a result of hostilities in the region or otherwise. Any hostilities involving Israel, terrorist activities, political instability or violence in the region or the interruption or curtailment of trade or transport between Israel and its trading partners could adversely affect our operations and results of operations and the market price of our Ordinary Shares.

Our commercial insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East. Although the Israeli government is currently committed to covering the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained or, if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by us could have a material adverse effect on our business, financial condition and results of operations.

Further, many Israeli citizens are obligated to perform several days, and in some cases more, of annual military reserve duty each year until they reach the age of 40 (or older for certain reservists) and, in the event of a military conflict, may be called to active duty. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists.

Additionally, having already passed into law a bill that removes the power of the Israeli judiciary to strike down legislation it deems unreasonable, the Israeli government also announced its plans to pass into legislation other judicial reforms that would, for example, increase political influence over the selection of judges. These plans have been met with mass protests in Israel and criticism from leading Israeli business leaders and certain foreign leaders. If such government plans are eventually enacted, they may cause operational challenges for us since we are headquartered in Israel and the majority of our employees are located in Israel. In addition, if foreign policy is negatively impacted with regard to Israel, this could impact our business with suppliers and customers which could in turn adversely impact our reputation, results of operations or financial condition.

In October 2023, Hamas terrorists infiltrated Israel's southern border from the Gaza Strip and conducted an orchestrated series of attacks on civilian and military targets, resulting in the mass death, maiming and kidnapping of civilians and soldiers. Hamas also launched extensive rocket attacks on Israeli population and industrial centers in Israel. Following the attack, Israel's security cabinet declared war against Hamas and a military campaign against these terrorist organizations commenced in parallel to their continued rocket and terror attacks.

Following the attack, the Israeli government declared that the country was at war and the Israeli military began to call up reservists for active duty, including one of our employees, in anticipation of an active military campaign, the import and export of goods may experience disruptions in and out of Israel as a result of such military conflict. A prolonged war could result in further military reserve duty call-ups in the future as well as irregularities to our supply chain and the movement of components and raw material into Israel and our finished products exported from Israel, which could disrupt our operations. Such disruption could materially adversely affect our business, prospects, financial condition and results of operations.

The intensity and duration of Israel's current war against Hamas is difficult to predict, as are its economic implications on our Company's business and operations and on Israel's economy in general.

We have approximately 53 employees in Israel. While to our knowledge, there have been no reported casualties or injuries to our employees as of the date of this Annual Report, some of our Israeli employees have been mobilized as members of the Israeli military reserves to active duty. The ongoing war could cause harm to our employees and otherwise impair their ability to work for extended periods of time, as well as disrupt supply chains, transport networks, telecommunications and financial systems, and other critical infrastructure necessary to conduct business in Israel. As the intensity of the war has been rapidly evolving, including the potential for heightened geopolitical tensions in the Middle East, we continue to receive and review reports concerning our operations and business partners and remain vigilant.

The risk of cybersecurity incidents may also increase in connection with the ongoing war. These attacks may impact critical infrastructure and financial institutions globally, which in turn could adversely affect our operations. While we have taken actions to mitigate such potential risks, the proliferation of malware from the war into systems unrelated to the war, or cyberattacks targeted against Israeli companies, could adversely affect our operations.

Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our business. The political and security situation in Israel may result in parties, with whom we have contracts, claiming that they have been discharged from performance, based on force majeure provisions. Political and economic implications of these hostilities, therefore, could harm our operations and product development.

Any hostilities involving Israel and the potential interruption and curtailment of trade between Israel and its trading partners could adversely affect our operations and make it more difficult for us to raise capital. We may experience disruptions if acts associated with such hostilities result in serious damage to our business and manufacturing facilities. Our business interruption insurance may not adequately compensate us for potential losses that may occur as a result of events associated with the security situation in the Middle East. Any losses or damages incurred by us could have a material adverse effect on our business.

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

Most of our revenues to date are attributable to sales in jurisdictions other than the United States. For the years ended December 31, 2023 and 2022, approximately 75% and 61%, respectively, of our revenues were derived from sales to markets outside of the United States. Our inability to obtain or maintain federal or foreign regulatory approvals relating to the import or export of our products on a timely basis could adversely affect our ability to expand our international business. Additionally, our international operations could be subject to a number of risks, any of which could adversely affect our future international sales and operating results, including:

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

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

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

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

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

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

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

- long customer sales cycles;
- reduced demand for our products and services;

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

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

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

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

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

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

We rely on a limited number of vendors and subcontractors for certain components of the products we are supplying and projects we perform. In some cases, we rely on a single source vendor or subcontractor. Any undetected flaws in components to be supplied by our vendors could lead to unanticipated costs to repair or replace these parts. If one of our suppliers was unable to meet our supply demands and we could not quickly replace the source of supply, it could cause a delay of receipt of revenues and damage our business reputation. Shortages caused by disruptions at our suppliers and subcontractors for a variety of reasons, including public health emergencies and associated containment measures, war or geopolitical tensions (such as the Israel-Hamas war, tensions in the Middle East and the Ukraine/Russia conflict), significant natural disasters (including as a result of climate change) or significant price changes (including as a result of inflationary pressures). We depend on subcontractors to adequately perform a substantial part of our projects. If a subcontractor fails to fulfill its obligations under a certain project, it could delay our receipt of revenues for such project and damage our business reputation, and therefore could have a material adverse effect on our business, operating results and financial condition.

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

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

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

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

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

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

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

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

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

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

We may face IP litigation, which could be costly, harm our reputation, limit our ability to sell our products, force us to modify our products or obtain appropriate licenses, and divert the attention of management and technical personnel. Our products employ technology that may infringe on the proprietary rights of others, and, as a result, we could become liable for significant damages and suffer other harm to our business. Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have a lower level of visibility into the development process with respect to such technology or the care taken to safeguard against infringement risks.

We have not been subject to material IP litigation to date. We have received demand letters in the past alleging that products or processes of ours are in breach of patents, which we have denied, and after a respective lawsuit has been filed in respect of such claims, it has been resolved and dismissed with no effect on our business or any material cost to us. Litigation may be necessary in the future to enforce any patents we have or may obtain and/or any other IP rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, and we may not prevail in any such future litigation. Litigation, whether or not determined in our favor or settled, could be costly, could harm our reputation and could divert the efforts and attention of our management and technical personnel from normal business operations. In addition, adverse determinations in litigation could result in the loss of our proprietary rights, subject to us to significant liabilities, require us to seek licenses from third parties, prevent us from licensing our technology or selling or manufacturing our products, or require us to expend significant resources to modify our products or attempt to develop non-infringing technology, any of which could seriously harm our business.

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

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

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

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

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

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

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

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

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

War, terrorism, other acts of violence or natural or man-made disasters, including a global pandemic, may affect the markets in which the Company operates, the Company's customers, the Company's delivery of products and customer service, and could have a material adverse impact on our business, results of operations, or financial conditions.

The Company's business may be adversely affected by instability, disruption or destruction in a geographic region in which it operates, regardless of cause, including war, terrorism, riot, civil insurrection or social unrest, and natural or man-made disasters, including famine, food, fire, earthquake, storm or pandemic events and spread of disease. Such events may cause customers to suspend their decisions on using the Company's products and services, make it impossible to attend or sponsor trade shows or other conferences in which our products and services are presented to customers and potential customers, cause restrictions, postponements and cancellations of events that attract large crowds and public gatherings such as trade shows at which we have historically presented our products, and give rise to sudden significant changes in regional and global economic conditions and cycles that could interfere with purchases of goods or services, commitments to develop new products. These events also pose significant risks to the Company's personnel and to physical facilities, transportation and operations, which could materially adversely affect the Company's financial results.

Risks Related to Our Ordinary Shares

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

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

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

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

We have been notified by The Nasdaq Stock Market LLC of our failure to comply with certain continued listing requirements and, if we are unable to regain compliance with all applicable continued listing requirements and standards of Nasdaq, our Common Stock could be delisted from Nasdaq.

Our ordinary shares are currently listed on Nasdaq. In order to maintain that listing, we must satisfy minimum financial and other continued listing requirements and standards, including those regarding director independence and independent committee requirements, minimum stockholders' equity, minimum share price, and certain corporate governance requirements.

On September 13, 2023, we received a letter from the Listing Qualifications Staff of The Nasdaq Stock Market LLC ("Nasdaq") indicating that, based upon the closing bid price of our ordinary shares for the previous 30 consecutive business days, we no longer met the requirement to maintain a minimum bid price of \$1 per share (the "Minimum Bid Price Requirement") and were required to regain compliance with the Minimum Bid Price Requirement by March 11, 2024.

On March 13, 2024, we received a letter from Nasdaq notifying us that, while we have not regained compliance with the with the minimum \$1 bid price per share requirement (the “Minimum Bid Price Requirement”), Nasdaq has determined that we are eligible for and granted us an additional 180 calendar day period, or until September 9, 2024 (the “Second Compliance Period”), to regain compliance. Nasdaq's determination was based on (i) our Company meeting the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on The Nasdaq Capital Market, with the exception of the Minimum Bid Price Requirement, and (ii) our written notice to Nasdaq of its intention to cure the deficiency during the Second Compliance Period by effecting a reverse stock split, if necessary. If at any time before September 9, 2024, the closing bid price of our ordinary shares is at least \$1 per share for a minimum of 10 consecutive business days, we should be able to regain compliance with the Minimum Bid Price Requirement.

If we do not regain compliance within the allotted compliance period, Nasdaq staff will provide notice that our ordinary shares will be subject to delisting. We would then be entitled to appeal that determination to a Nasdaq hearings panel. There can be no assurances that we will be able to regain compliance with the Minimum Bid Price Requirement or, if we do regain compliance with the Minimum Bid Price Requirement, that we will be able to continue to comply with all applicable Nasdaq listing requirements in the future. If we are unable to maintain compliance with these Nasdaq requirements, our ordinary shares will be delisted from Nasdaq.

In the event that our ordinary shares are delisted from Nasdaq, as a result of our failure to comply with the Minimum Bid Price Requirement, or due to our failure to continue to comply with any other requirement for continued listing on Nasdaq, and is not eligible for listing on another exchange, trading in our ordinary shares could be conducted in the over-the-counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it could become more difficult to dispose of, or obtain accurate price quotations for, our ordinary shares, and it would likely be more difficult to obtain coverage by securities analysts and the news media, which could cause the price of our ordinary shares to decline further. Also, it may be difficult for us to raise additional capital if we are not listed on a national exchange.

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

Sigma Wave Ltd. (“Sigma”), which is controlled by the family members of Mrs. Tsviya Trabelsi, and by her husband Mr. Arie Trabelsi, a member of our board of directors, is the beneficial owner of approximately 4.5% of our outstanding ordinary shares as of December 31, 2023. Mrs. Trabelsi and Mr. Trabelsi are also the parents of Ordan Trabelsi, our CEO and President, and Barak Trabelsi, our COO and CTO. Such ownership interest gives Sigma the ability to influence our corporate affairs and to control our Company, including our management, subject to approvals that may be required for related-party transactions pursuant to Israeli law. Sigma may have influence over the outcome of most matters submitted to our shareholders, including the election of our directors, and such influence could make us a less attractive acquisition or investment target. Because the interests of Sigma may differ from the interests of our other shareholders, actions taken by Sigma with respect to us may not be favorable to our other shareholders.

We do not expect to pay cash dividends.

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

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

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

Risks Related to Our Location and Incorporation in Israel

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

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

Since its establishment in 1948, Israel has been involved in a number of armed conflicts with its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has continued into 2022. Also, since 2011, uprisings in several countries in the Middle East and neighboring regions have led to severe political instability in several neighboring states and to a decline in the regional security situation. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon. Any armed conflicts, terrorist activities or political instability in the region could materially and adversely affect our business, financial condition and results of operations. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to comply with their undertakings under those agreements pursuant to force majeure provisions in such agreements. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Most of our officers and directors 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 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 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.

We are a foreign private issuer under the rules and regulations of the SEC and are therefore exempt from a number of rules under the Exchange Act and applicable to Nasdaq listed companies and are permitted to file less information with the SEC than a domestic U.S. reporting company, which will reduce the level and amount of disclosure that you.

As 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"), we are exempt from certain rules and regulations provisions applicable to U.S. public companies and public companies listed on Nasdaq including:

- the rules under the Exchange Act requiring the filing with the Securities and Exchange Commission of quarterly reports on Form 10-Q and current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies in connection with shareholder meetings;

- the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; and
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any “short-swing” trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer’s equity securities within less than six months).

Accordingly, you receive less information about our Company and trading in our shares by our affiliates than you would receive about a domestic U.S. company, and are afforded less protection under the U.S. federal securities laws than you would be afforded in holding securities of a domestic U.S. company.

As a foreign private issuer, we are also permitted and follow certain home country corporate governance practices instead of those otherwise required under the Listing Rules of the NASDAQ Stock Market for domestic U.S. issuers. We have informed NASDAQ that we follow home country practice in Israel with regard to, among other things, director nomination procedure and approval of compensation of officers. In addition, we have opted to follow home country law instead of the Listing Rules of the NASDAQ Stock Market that require that a listed company obtain shareholder approval for certain dilutive events, such as the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or greater interest in the company, and certain acquisitions of the stock or assets of another company. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on The NASDAQ Global Select Market may provide our shareholders with less protection than they would have as shareholders of a domestic U.S. company.

Our status as a foreign private issuer is subject to an annual review and test, and will be tested again as of June 30, 2023¹ (the last business day of our second fiscal quarter of 2023). If we lose our status as a foreign private issuer, we will no longer be exempt from such rules. Among other things, beginning on January 1, 2024, we would be required to file periodic reports and financial statements on a periodic basis (including both an annual report in respect of 2023 and quarterly reports in respect of each of the quarters of 2024) as if we were a company incorporated in the U.S., which, among other things, could result in increased compliance and reporting costs to us.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

SuperCom Ltd.(the “Company”) is a company organized under the laws of the State of Israel. Our registered office is located at 3 Rothschild Street, Tel-Aviv, Israel, and our telephone number is +972-9-889-0880. Our agent in the United States is SuperCom, Inc., and is located at 160 Franklin Street, Suite 310, Oakland, CA, 94607, telephone number +1 (510) 505-2600.

Our web address is SuperCom.com.

The SEC maintains an internet site located at <https://www.sec.gov/edgar.com> that contains reports, other statements and other information regarding issuers that file electronically with the SEC.

SuperCom Ltd. was incorporated in the State of Israel on July 4, 1988 pursuant to the provisions of the then-current Israeli Companies Ordinance. The legislative framework within which we now operate is the Israeli Companies Law, which became effective on February 1, 2000, and the Israeli Companies Ordinance (New Version) 1983, as amended (the “Companies Ordinance”).

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.

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

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

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

In September 2007, we entered into a definitive agreement to acquire the credentialing division of Disaster Management Solutions Inc., or DMS. This acquisition complemented our former incident management solutions business and added the RAPTOR system to our former CSMS business, both of which were sold in 2010.

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

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

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

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

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

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

On December 26, 2013, we acquired the SmartID division of OTI, including all contracts, software, other related technologies and IP assets.

On November 12, 2015, we acquired Prevision, an Israeli based cyber security company. We paid \$1.1 million at the closing and agreed to make contingent annual payments of approximately \$250,000 pursuant to an earn-out mechanism until the end of 2019. As of December 31, 2022, no earn-out liability exists.

On January 1, 2016, we acquired LCA, a U.S. based company, including all contracts, software, other related technologies and IP assets. We paid \$2.9 million at the closing and committed to certain contingent earn-out payments over the next three years that are structured as a single digit percentage of annual revenues in excess of stand-alone LCA management revenue projections, as of January 2020 the contingent earn-out is no longer exists.

On March 13, 2016, we acquired Safend, an Israeli based cyber security company. Safend is an international provider of cutting-edge endpoint data protection guarding against corporate data loss and theft through content discovery and inspection, encryption methodologies, and comprehensive device and port control. Safend maps sensitive information and controls data flow through email, web, external devices and additional channels. Founded in 2003, Safend sold its products to over 3,000 customers in the United States, Europe, and Asia, and more than three million software license seats deployed by multinational enterprises, government agencies and small to mid-size companies around the globe.

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

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

B. BUSINESS OVERVIEW

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

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

e-Gov

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

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

IoT and Connectivity

IoT

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

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

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

Connectivity

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

Cyber Security

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

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

Market Opportunity

We believe that our wide range of solutions offers us several opportunities across global markets and industries. The overall e-Gov market remains strong. Our addressable market includes both developing and developed countries.

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

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

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

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

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

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

Our Strategy

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

- Develop strong strategic relationships with our business partners, including the systems integrators and representatives that introduce our products and solutions into their respective markets.
- Employ dedicated sales personnel to work closely with our business partners. Our sales personnel will customize and adapt solutions that can then be installed and supported by these business partners.

- Expand our IoT and Cyber Security activities globally, particularly in the Americas, Europe, and the Far East.
- Leverage our customer base, superior PureSecurity hybrid suite of IoT solutions, and Cyber Security capabilities to secure additional long-term contracts with governments and communities in the public safety markets.
- Leverage our reputation, talented personnel, and project management capabilities in the e-Gov market to secure additional projects and solutions in the growing e-Government market.
- Leverage our customer base, Connectivity solutions, and Cyber Security capabilities to secure additional long-term contracts with governments and communities in the Communication Infrastructure market.
- Develop strong strategic relationships with business partners that will introduce our solutions into the healthcare, homecare, Safe City and Smart Campus markets.
- Develop strong strategic relationships with business partners in the financial services industry, and un-banked and mobile payments markets.
- Identify and acquire synergistic contracts or businesses in order to reduce time to market, obtain complementary technologies and secure required references for international bids.
- Grow our business in emerging markets with perceived significant growth opportunities.

We currently target the following markets:

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

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

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

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

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

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

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

Our Solutions and Products

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

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

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

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

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

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

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

IoT and Connectivity SBU Products and Solutions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Connectivity Products and Solutions

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

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

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

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

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

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

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

- Cost effective and scalable network architecture with centralized control plane and distributed data plane
- Supporting up to 5,000 AP's and 50,000 users per controller
- Control and manage AP and backhaul radio, including statistic and reporting
- Automatic AP units detection, configuration and firmware distribution
- Secured control layer management
- Hotspots/Hotzones and cellular offloading services
- Providing a single peer to the AAA

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

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

Cyber Security SBU Products and Solutions

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

Safend's Data Protection Suite includes:

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

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

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

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

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

Research and Development

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

During the years ended December 31, 2023 and 2022, we have invested, \$3.2 million and \$3.4 million, respectively, in research and development. We anticipate that we will continue to invest up to 15% of our revenue in broadening our Cyber Security, e-Gov, IoT and Connectivity solutions and platforms. To expedite our development efforts, we may continue to acquire technologies from other companies, where we believe that such acquisition may cost effectively expedite our time to market of new products and solution.

Sales and Marketing

We sell our systems and products worldwide through local representatives, subsidiaries and distribution channels that include direct sales and marketing through representatives. We currently have 8 employees that are directly engaged in the sale, distribution and support of our products through centralized marketing offices in distinct world regions, including our employees and service providers located in the United States, and Israel, who sell and support our products in their regions. We are also represented by several independent representatives, resellers and distributors.

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

Principal Markets

The following table provides a breakdown of total revenue by geographic market for the three years ended December 31, 2023, 2022 and 2021 (all amounts in thousands of dollars):

	2023	2022	2021
Africa	\$ 1,455	\$ 374	\$ 1,586
Europe	17,673	9,559	2,912
South and center America	12	-	37
United States	6,766	6,877	6,820
Israel	585	693	757
Asia Pacific	79	146	155
Total	\$ 26,570	\$ 17,649	\$ 12,267

As part of the Company's decision to switch from one technology segment, e-government, into three technology segments or Strategic Business Units; e-Gov, IoT, and Cyber Security, the Company made four acquisitions in 2016 of companies with various technologies and customer bases which enhanced and strengthened the capabilities and value offerings of each of the three segments.

The following table provides a breakdown of total revenue by segment for the three years ended December 31, 2023, 2022 and 2021 (all amounts in thousands of dollars):

	Year ended December 31,		
	2023	2022	2021
e-Gov	\$ 1,544	\$ 637	\$ 1,729
IoT	23,766	15,628	8,904
Cyber Security	1,260	1,384	1,634
Total	\$ 26,570	\$ 17,649	\$ 12,267

The following table provides a breakdown of total revenue by products and services for the three years ended December 31, 2023, 2022 and 2021 (all amounts in thousands of dollars):

	Year ended December 31,		
	2023	2022	2021
Revenues			
Products	\$ 19,767	\$ 10,099	\$ 4,475
Services	6,803	7,550	7,792
Total revenues	\$ 26,570	\$ 17,649	\$ 12,267

Customer Service and Support

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

Manufacturing and Availability of Raw Materials

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

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

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

Competition

We assess our competitive position from our experience and market intelligence, including third party competitive research materials. We believe that Guidance (G4S), G4S, STOP, Omnilink, Sentinel, BI (GeoGroup), and Buddi are our potential competitors with respect to our IoT products and solutions. We believe that Face Technologies, Zetes Industries, Mühlbauer Group, Oberthur Technologies, Thales, Bundesdruckerei GmbH and Nadra are our potential competitors in the e-Gov products and solutions market. We believe that McAfee (Intel Security), Symantec, Sophos, and Trend Micro are the primary competitors for our Cyber Security division. Due to the developing nature of the markets for our e-Gov, IoT, and Cyber Security products and solutions and the ongoing changes in this market, the above-mentioned list may not constitute a full list of all of our competitors and additional companies may be considered our competitors.

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

Intellectual Property

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

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

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

Trademarks

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

Licenses

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

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

Government Regulation

Generally, we are subject to the laws, regulations and standards of the countries in which we operate and/or sell our products, which vary substantially from country to country. The difficulty of complying with these laws, regulations and standards may be more or less difficult than complying with applicable U.S. or Israeli regulations and the requirements may differ. Please see the section titled “Risk Factors” for more information on the effects of governmental regulation on our business.

C. ORGANIZATIONAL STRUCTURE

The following reflects our active subsidiaries and affiliates as of April 22, 2024:

SuperCom Inc. - wholly owned.

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

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

LCA, incorporated in California, was acquired by us on January 1, 2016, and provides electronic monitoring and community-based services under contracts with various government agencies.

Safend Ltd.("Safend") - wholly owned.

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

Prevision Ltd.("Prevision") - wholly owned.

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

Alvarion Technologies Ltd.("Alvarion") - wholly owned.

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

D. PROPERTY, PLANTS AND EQUIPMENT

We do not own any real estate. We lease approximately 1,139 square meters of office and warehousing premise in Tel Aviv and Herzliya, Israel, under a new lease which started on April 1, 2021 and expires on March 30, 2026. According to the lease agreements, the monthly fee (including management fees) is approximately \$35,430.

We lease approximately 1,701 square meters of office premises in Miami, Kentucky and California for our U.S. subsidiaries, which under the current lease contracts expire between 2024 and 2025, with a monthly fee of approximately \$26,749.

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

Our total annual rental fees, for 2023 and 2022 were \$930,000 and \$817,160, respectively.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

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

Overview

We are a global provider of traditional identification and e-Government solutions, IoT products and solutions, as well as Cyber Security products and services to governments and organizations throughout the world.

Our product depth and global presence was expanded significantly with our acquisition of the SmartID division of OTI in December 2013, as well as our acquisitions of Prevision, Safend, LCA, Powapos business, and Alvarion between November 2015 and May 2016. Initially, our operations grew significantly following the acquisition of the SmartID division and the 2016 acquisitions, especially our head count and research and development and sales and marketing expenses, as we did our best to respond to the new market and customer needs. Although in recent years, we have worked diligently through integration and restructuring processes to optimize our operational structure and costs so in the recent eight years our operation grew significantly organically, while we have focused our operations in developed countries.

We are headquartered in Israel and operate internationally with subsidiaries in the New York, California, and other geographical regions where we attain and deploy new projects.

General

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

Key Factors Affecting Our Business

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

Explanation of Key Income Statement Items, Significant Revenues and Expenses

General

2023 was a year of returning to normal as the Covid-19 global pandemic's impact had no impact on our operations in Israel, USA and worldwide. Our sales, project operations and R&D processes have return to normal per our current business plan. While returning fully to our business plan, we have optimized the operations of our Company, and our operating costs except for our investment in R&D which continued to enhance our product offerings and competitive standing among our target markets, our optimized company generated numerous new opportunities and large project wins in our target markets, but required us to use resources in many cases that have yet to yield income to our Company as part of multi-year government sale and project deployment life cycles. We believe that comparing between our 2023 fiscal year, on one hand and 2022 and 2021 fiscal years, on the other hand, cannot be done effectively without taking into account the material impact of Covid-19 on our business in the years 2022 and 2021.

Revenues

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

We generate a portion of our revenues from existing IoT, e-Gov, and Cyber Security long term services contracts, providing customers with turn-key systems, our products, software licenses, integration, installation, training, software upgrades, support, and multi-year maintenance services. Revenues from the sale of such services are generally recognized following delivery of such services and upon achievement of milestones as approved by our customers. A portion of these revenues are recurring in nature and billed monthly.

Revenues from the sale of Alvarion products are generally recognized upon delivery, and over time for delivery of Safend products.

Costs and Operating Expenses

For the fiscal year ended December 31, 2023, our costs were materially impacted by the fact that the Covid-19 pandemic ended and attention of management was required to quickly adapt and optimize operational structures of the businesses as was described in the General section above.

Our research and development expenses consist of salaries, subcontractor expenses, related depreciation costs and overhead allocated to research and development activities. In 2023, our research and development expenses were decreased by 12% compared to the same period in 2022. In 2022, our research and development expenses were increased by 23% compared to the same period in 2021.

Our selling and marketing expenses consist primarily of salaries and related costs, commissions earned by sales and marketing personnel, trade show expenses, promotional expenses and overhead costs allocated to selling and marketing activities, as well as depreciation expenses and travel costs. In 2023, our sales and marketing returned to normal and was optimized, our selling and marketing expenses decreased by 17% compared to the same period in 2022. In 2022, our selling and marketing expenses increased by 60% compared to the same period in 2021.

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

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

Operating Results

The following table sets forth selected our consolidated income statement data for each of the three years ended December 31, 2023 and 2021, expressed as a percentage of total revenues.

	2023	2022	2021
Revenues	100%	100%	100%
Cost of revenues	61.5	63.8	49.4
Gross profit	38.5	36.2	50.6
Operating expenses:			
Research and development	11.7	19.3	22.5
Selling and marketing	8.3	15.1	13.5
General and administrative	20.5	29.4	33.8
Other expenses	10.6	6.4	35.7
Total operating expenses	51.1	70.2	105.5
Operating loss	(12.6)	(34.0)	(54.9)
Financial expenses, net	(2.5)	(9.9)	(27.7)
Loss before income tax	(15.1)	(43.9)	(82.6)
Income tax expense	-	1.7	-
Net Loss	(15.1)	(42.3)	(82.6)

Year Ended December 31, 2023 Compared with Year Ended December 31, 2022

Revenues

Our total revenues in 2023 were \$26,570,000 compared to \$17,649,000 in 2022, an increase of 51%. The composition of revenues has changed during the fiscal year ended December 31, 2023 as follows: (i) the e-Gov segment revenue was \$1,544,000 in comparison to \$637,000 in 2022, an increase of 142% which reflects recurring revenue from some of our multiyear governments contracts; (ii) the IoT segment revenue was \$23,766,000 in comparison to \$15,628,000 in 2022, an increase of 52% which is attributed to an increase of revenue in the European market; and (iii) the Cyber Security segment revenue was \$1,260,000 in comparison to \$1,384,000 in 2022, a decrease of 9% which is mainly attributed to the decrease in our revenue from products license renewals, and in our consulting-based cyber offering.

Gross Profit

Our gross profit during the fiscal year ended December 31, 2023 was \$10,223,000 compared to \$6,388,000 in 2022, an increase of 60%. The gross profit margin for 2023 was 38.5% compared to 36.2% in 2022. The increase in our gross profit margin is mainly attributed to (i) the completion of a new \$33 million contract's implementation stage completed and the project's recurring revenue stage which contributes to a higher than average gross margin; (ii) a change in the mix of revenues; (iii) an increase of 52% in IoT revenue, which contributes to a higher than average gross margin; and (iv) a decrease of revenue from cyber services contracts which contributes to a higher than average gross margin.

Expenses

Our operating expenses, excluding other (income) expenses, net, during the fiscal year ended December 31, 2023 was \$10,770,000 compared to \$11,255,000 in 2022, a decrease of 4%. The decrease in operating expenses was primarily due to (i) a decrease of 9% in research and development expenses, (ii) an increase of 5% in general and administrative expenses; and (iii) a decrease of 17% in sales and marketing expenses.

Our sales and marketing expenses decreased to \$2,200,000 during the fiscal year ended December 31, 2023 from \$2,657,000 in 2022, a decrease of 17%. The decrease in our sales and marketing expenses was primarily due to an optimization in our sales and marketing direct expenses and travels expenses during 2023.

Our research and development expenses decreased to \$3,110,000 during the fiscal year ended December 31, 2023 from \$3,412,000 in 2022, a decrease of 9%. The decrease in our research and development expenses was primarily due to the completion of some of the IoT products development.

Our general and administrative expenses increased to \$5,460,000 during the fiscal year ended December 31, 2023 from \$5,186,000 in 2022, an increase of 5%.

Other expenses were \$2,812,000 during the fiscal year ended December 31, 2023, compared to other expense of \$1,138,000 in 2022. The increase in other expenses in 2023 from 2022 represents mainly (i) a provision of bad debt, related mainly to African and Latin American government customers, amounting to \$1,457,000 and \$1,000,000 respectively, and one-time expense due to settlement with e-GOV account amounted to \$1,053,000 in 2023.

Financial Expenses, net

We had financial expenses, net, of \$663,000 during the fiscal year ended December 31, 2023 compared to \$1,751,000 in 2022, a decrease of 62% due to \$2,313,000 financial income from changes in fair value of derivative warrants liabilities offset by an increase of exchange rate expenses of \$483,000 and of interest expense and other related fees on the outstanding loans and credit lines we maintain of \$742,000.

Income Tax

We recorded a tax income of \$0 for the fiscal year ended December 31, 2023 compared to a tax income of \$299,000 in 2022, mainly due to a tax asset recognized for Safend after four years of material profit and toward Safend tax allowance for the year 2022.

Net Loss

As a result of the factors described above, our net loss for the fiscal year ended December 31, 2023, was \$4,022,000 compared to a net loss of \$7,457,000 in 2022 a decrease of 46%. The decrease in our net loss is mainly related to (i) an increase of \$1.7M in other expenses ;(ii) a decrease of \$1.1M in financial expenses, offset by; (ii) a \$3,835,000 increase in gross profit, and (iii) a \$485,000 decrease in operating expenses excluding other expenses, net.

Year Ended December 31, 2022 Compared with Year Ended December 31, 2021

Revenues

Our total revenues in 2022 were \$17,649,000 compared to \$12,267,000 in 2021, an increase of 44%. The composition of revenues has changed during the fiscal year ended December 31, 2022 as follows: (i) the e-Gov segment revenue was \$637,000 in comparison to \$1,729,000 in 2021, a decrease of 63% which reflects recurring revenue from some of our multiyear governments contracts; (ii) the IoT segment revenue was \$15,628,000 in comparison to \$8,904,000 in 2021, an increase of 76% which is attributed to an increase of revenue in the European market; and (iii) the Cyber Security segment revenue was \$1,384,000 in comparison to \$1,634,000 in 2021, a decrease of 15.3% which is mainly attributed to the decrease in our revenue from products license renewals, and in our consulting-based cyber offering.

Gross Profit

Our gross profit during the fiscal year ended December 31, 2022 was \$6,388,000 compared to \$6,204,000 in 2021, an increase of 3%. The gross profit margin for 2022 was 36.2% compared to 50.6% in 2021. The decrease in our gross profit margin is mainly attributed to (i) a large increase in COGS as a result of the new \$33 million contract's implementation stage which contributes to a lower than average gross margin; (ii) a change in the mix of revenues; (iii) an increase of 75% in IoT revenue, which contributes to a lower than average gross margin; and (v) a decrease of revenue from cyber services contracts which contributes to a higher than average gross margin.

Expenses

Our operating expenses (without other expenses) increased during the fiscal year ended December 31, 2022 to \$11,255,000 from \$8,567,000 in 2021, an increase of 31.3%. The increase in operating expenses was primarily due to (i) an increase of 23.5% in research and development expenses, (ii) an increase of 25% in general and administrative expenses mainly related to an increase in our administration headcount; and (iii) an increase of 60.5% in sales and marketing expenses mainly related to the significant increase in our sales and marketing direct expenses and travel expenses derived from the removal of Covid-19 lockdowns and travel limitations in 2021.

Our sales and marketing expenses increased to \$2,657,000 during the fiscal year ended December 31, 2022 from \$1,655,000 in 2021, an increase of 60.5%. The increase in our sales and marketing expenses was primarily due to an increased sales and marketing direct expenses and travels expenses, derived from the removal of the Covid-19 lockdowns and travel limitations in 2022.

Our research and development expenses increased to \$3,412,000 during the fiscal year ended December 31, 2022 from \$2,763,000 in 2021, an increase of 23.5%. The increase in our research and development expenses was primarily due to the increased needs for developing our IoT and Cyber Security products.

Our general and administrative expenses increased to \$5,186,000 during the fiscal year ended December 31, 2022 from \$4,149,000 in 2021, an increase of 25%.

Other expenses were \$1,138,000 during the fiscal year ended December 31, 2022, compared to other expense of \$4,347,000 in 2021. The decrease in other expenses in 2022 from 2021 represents mainly (i) a provision of bad debt, related mainly to African and Latin American government customers, amounting to \$1,000,000 and \$3,000,000 respectively, and one-time expenses amounted to \$1,300,000 in 2021.

Financial (Expenses) Income, net

We had financial expenses, net of \$1,751,000 during the fiscal year ended December 31, 2022 compared to \$3,396,000 in 2021, a decrease of 48.4%. Financial expenses consist primarily of bank fees related to bid and performance guarantees issued to our customers, exchange rate effect, interest expense and other related fees on the outstanding loans and credit lines we maintain.

Income Tax

We recorded a tax income of \$299,000 for the fiscal year ended December 31, 2022 compared to a tax expense of \$5,000 in 2021, mainly due to a tax asset recognized for Safend after four years of material profit and toward Safend tax allowance.

Net Income

As a result of the factors described above, our net loss for the fiscal year ended December 31, 2022, was \$7,457,000 compared to a net loss of \$10,138,000 in 2021. The decrease in net loss is mainly related to (i) a decrease of \$3.2m in other expenses consisting of a bad debt provision of \$1,000,000 compared to \$1,347,000 in one-time expenses and bad debt provision of \$3,200,000 in 2021, offset by; (ii) \$1,600,000 decrease in financial expenses, and (iii) a \$2,700,000 increase in operating expenses.

Seasonality

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

Impact of Currency Fluctuation and of Inflation

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

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

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

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

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

Year ended December 31,	Israeli inflation rate %	NIS devaluation (appreciation) rate %	Israeli inflation adjusted for devaluation (appreciation) %
2023	3.0	3.1	(0.1)
2022	5.3	13.2	(7.9)
2021	2.8	(3.3)	6.1

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

Conditions in Israel

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

Trade Relations

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

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

Effective Corporate Tax Rate

The Israeli corporate tax rate was 23% in 2021, 2022 and in 2023. For the years ended December 31, 2023, 2022 and 2021 we had losses, and therefore the effective tax rate was mostly affected by changes in deferred tax.

In 2023, 2022 and 2021, the USA federal tax rate was 21%, the state tax rate was 8.84% in CA and 6.5% in NY, the New York City tax rate was 6.5%. Our effective USA tax rate as for the year ended December 31, 2023 was 27.03%.

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

B. LIQUIDITY AND CAPITAL RESOURCES

As of and for the year ended December 31, 2023, the Company had an accumulated deficit of \$106,948, and net cash used in operating activities of \$2,367 compared to \$4,654 for the year ended December 31, 2022, which demonstrates a 49% reduction in negative operation cash flow.

Management has evaluated the significance of the conditions described above in relation to the Company's ability to meet its obligations and noted that as of December 31, 2023, the Company had cash, cash equivalent and restricted cash of \$5,577 and positive working capital of \$23,059.

Additionally, the Company secured financing of \$20,000 during 2018, of which, \$6,000 remains available to the Company to draw during the 12 months following the balance sheet date, under certain conditions. Throughout 2021, the Company also secured through the issuance of multiple notes, aggregate gross proceeds of \$12,000 of subordinated debt ("Subordinated Debt"). The Company raised a gross amount of approximately \$3,200 in a private placement in July 2020. To date, the Company has used the proceeds from the secured financing, subordinated debt and private placement (i) to satisfy certain indebtedness; and (ii) for general corporate purposes and (iii) working capital needs for multiple new government customer contracts with significant positive cash flow.

On March 1, 2022, the Company raised approximately \$4.65 million in gross proceeds in a registered direct offering with a single accredited institutional investor of an aggregate of 3,130,000 of its ordinary shares, and 4,401,585 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent private placement to such purchaser of the Company's private warrants to purchase an aggregate of 5,648,689 of ordinary shares at an exercise price of \$0.70 per share.

On March 30, 2023, the Company raised approximately \$2.4 million in gross proceeds in a registered direct offering with a single accredited institutional investor through the sale of an aggregate of 485,000 of its ordinary shares, and 1,032,615 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent private placement to such Purchaser of the Company's private warrants to purchase an aggregate of 1,517,615 of its ordinary shares at an exercise price of \$1.66 per share.

On August 3, 2023, the Company raised approximately \$2.75 million in gross proceeds in a registered direct offering with a single accredited institutional investor through the sale of an aggregate of 661,000 of its ordinary shares, and 2,574,295 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent private placement to such Purchaser of the Company's private warrants to purchase an aggregate of 3,235,295 of its ordinary shares at an exercise price of \$0.85 per share.

On November 15, 2023, the Company raised approximately \$2.0 million in gross proceeds in a warrant exercise and reload with a single accredited institutional investor through warrant exercise of 1,081,000 warrant to ordinary shares, and warrant exercise of 3,671,910 warrant to pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent warrant reload to such Purchaser of the Company's private warrants to purchase an aggregate of 9,505,820 of its ordinary shares at an exercise price of \$0.5 per share.

Furthermore, the available \$6 million secured credit facility from Fortress Investment Group may provide the Company additional access to capital if needed.

The Company believes that based on the above-mentioned secured financings, management's current plans, maintaining the cost savings and expected cash streams from the Company's current contracts with customers worldwide, the Company will be able to fund its operations for at least the next 12 months.

Cash Flows

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

	Year ended December 31,		
	2023	2022	2021
	(in thousands)		
Net cash used in operating activities	\$ (2,367)	\$ (4,654)	\$ (9,697)
Net cash used in investing activities	(3,366)	(2,189)	(1,692)
Net cash provided by (used in) financing activities	6,805	6,744	12,031
Net increase(decrease) in cash and cash equivalents	1,072	(99)	652
Cash, cash equivalents and restricted cash at beginning of period	4,505	4,604	3,952
Cash, cash equivalents and restricted cash at end of period	\$ 5,577	\$ 4,505	\$ 4,604

Net cash used in operating activities for the year ended December 31, 2023, was \$2,367,000, compared to net cash used by operating activities of \$4,654,000 during the year ended December 31, 2022, a decrease of 49%.

Net cash used in investing activities during the year ended December 31, 2023, was \$3,366,000 compared to \$2,189,000 during the year ended December 31, 2022, a decrease of 53.8%.

Net cash provided by financing activities during the year ended December 31, 2023, was \$6,805,000 compared to \$6,744,000 during the year ended December 31, 2022, which consisted mainly of two registered direct offering with \$5,180,000 in gross proceeds and warrant exercise for cash with \$1,819,000 in gross proceeds.

Net cash used in operating activities for the year ended December 31, 2022, was \$2,189,000, compared to net cash used by operating activities of \$9,697,000 during the year ended December 31, 2021, a decrease of 77%.

Net cash used in investing activities during the year ended December 31, 2022, was \$3,366,000 compared to \$1,692,000 during the year ended December 31, 2021, a decrease of 50%.

Net cash provided by financing activities during the year ended December 31, 2022, was \$6,744,000 compared to \$12,041,000 during the year ended December 31, 2021.

Discussion of Critical Accounting Policies

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

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

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

Revenue Recognition

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

We measure revenue based upon the consideration specified in the client arrangement, and revenue is recognized when the performance obligations in the client arrangement are satisfied. A performance obligation is a contractual promise to transfer a distinct service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as, the customer receives the benefit of the performance obligation. Under ASC 606, revenue is recognized when a customer obtains control of promised services in an amount that reflects the consideration we expect to receive in exchange for those services. To achieve this core principle, the Company applies the following five steps:

1) *Identify the contract with a customer*

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

2) *Identify the performance obligations in the contract*

Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised services, the Company must apply judgment to determine whether promised services are capable of being distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation.

3) *Determine the transaction price*

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer.

We evaluate whether a significant financing component exists when we recognize revenue in advance of customer payments that occur over time. For example, some of our contracts include payment terms greater than one year from when we transfer control of goods and services to our customers and the receipt of the final payment for those goods and services. If a significant financing component exists, we classify a portion of the transaction price as interest income, instead of recognizing all of the transaction price as revenue. We do not adjust the transaction price for the effects of financing if, at contract inception, the period between the transfer of control to a customer and final payment is expected to be one year or less.

4) *Allocate the transaction price to performance obligations in the contract*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. However, if a series of distinct services that are substantially the same qualifies as a single performance obligation in a contract with variable consideration, the Company must determine if the variable consideration is attributable to the entire contract or to a specific part of the contract. Contracts that contain multiple performance obligations require an allocation of the transaction price based on management's judgement.

5) *Recognize revenue when or as the Company satisfies a performance obligation*

The Company satisfies performance obligations either over time or at a point in time. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

Nature of goods and services

The following is a description of the Company's goods and services from which the Company generates revenue, as well as the nature, timing of satisfaction of performance obligations, and significant payment terms for each, as applicable:

Software Maintenance and Support Services Revenue

Software maintenance and support services contracts are sold in conjunction with the Company's software products for its e-Govt, IoT and Connectivity, and Cyber Security segments. The contract terms for software maintenance and support span one to five years in length and provide customers with the rights to unspecified software product updates if and when available, online and telephone access to technical support personnel.

The Company recognizes revenue from fixed-price service and maintenance contracts using the input method of accounting. Under the input method, revenue is recognized on the basis of an entity's efforts toward satisfying a performance obligation. We recognize revenue from maintenance and support services provided pursuant to the time elapsed under such contracts, as that is when our performance obligation to our customers under such arrangements is fulfilled.

Perpetual Software License Revenue

The Company generates revenue from the sales of perpetual software licenses for its Cyber Security and e-Gov segments, including sales for its Magna_DL, Magna_VL, Magna_Passport, and Magna_ID software products. The intellectual property rights for usage of these products are transferred to the customer at the time of purchase and the software does not require implementation services, ongoing maintenance and support, or other adaptations in order to maintain the license utility.

In arrangements where ongoing services are not essential to the functionality of the delivered software, the Company recognizes perpetual software license revenue when the license agreement has been approved and the software has been delivered. The Company can identify each party's rights, payment terms, and commercial substance of the content. Where applicable, we identify multiple performance obligations and record as revenue as the performance obligations are fulfilled based on the adjusted market assessment approach.

Annual Software License Revenue

The Company generates revenue from the sales of time-based software licenses for certain of its software products. The intellectual property rights for access to these products are transferred to the customer for contract terms of one year and the software requires ongoing maintenance, support, or other adaptations in order to maintain utility.

The Company recognizes revenue over time using the input method for its annual software licenses when ongoing services are determined to be essential to the functionality of the delivered software. The license along with the any customization services are transferred to our customers pursuant to the time elapsed under such contracts, as that is when our performance obligation to our customers under such arrangements is fulfilled.

System Design Revenue

System design revenue relate to services provided to governments and national agencies in the early stages of a new project including incumbent system data information extraction, customer interviewing and specification mapping, architecture and software design, secure credential design, project management and planning, data migration design, project operation planning, training, assimilation, and operational processes optimization for the Company's e-Gov and IoT solutions.

The Company recognizes revenue from its system design services using the input method of accounting. Under the input method, revenue is recognized on the basis of an entity's efforts or inputs toward satisfying a performance obligation. We recognize revenue from system design services provided pursuant to time-and-materials based contracts as the services are performed, as that is when our performance obligation to our customers under such arrangements is fulfilled. Where applicable, we identify multiple performance obligations and record revenue as the performance obligations are fulfilled based on the expected cost plus a margin approach.

Implementation and System Deployment Revenue

Implementation and system deployment revenue relate to services provided to governments and national agencies typically after the design stage is concluded including infrastructure setup and deployment, software and chip design development, software customizations, purchase, and deployment of hardware and necessary system components, system integration and implementation, process engineering, customer training, system quality assurance testing, load balancing and local environment optimizations, and operational system launch for the Company's e-Gov and IoT solutions.

The Company recognizes revenue from its implementation and system deployment services using the input method of accounting. Under the input method, revenue is recognized on the basis of an entity's efforts or inputs toward satisfying a performance obligation. We recognize revenue from implementation and system deployment services provided pursuant to time-and-materials based contracts as the services are performed, as that is when our performance obligation to our customers under such arrangements is fulfilled. Where applicable, we identify multiple performance obligations and record revenue as the performance obligations are fulfilled based on the residual approach.

Procurement of Secure Document Consumables Revenue

The Company procures secure document consumables for its e-Gov government customers which are needed to issue secure documents after a project deployment is complete and a system is actively running and operational. These consumables are manufactured at secure printing facilities utilizing proprietary and customized designs, which the Company has developed during the project design stage, to provide multiple layers of security preventing falsification of documents. These consumables include base card stock, security laminates, holograms, passive RFID chip inlays, passport booklets, secure chip cards, and various other secure credentialing necessities.

The Company recognizes revenue on procurement of secure document consumables products when the customer has control of the product, which is determined to be at the point in time when the products are delivered. Where applicable, we identify multiple performance obligations and record revenue as the performance obligations are fulfilled based on their stated prices within the contract.

Wireless & RFID Products Revenue

The Company's wireless products include solutions for carrier Wi-Fi, enterprise connectivity, smart city, smart hospitality, connected campuses and connected events which enhance productivity and performance. The Company's RFID products include asset tags which provide real-time asset loss prevention, inventory management, and personnel/asset tracking and vehicle tags which provide long-range vehicle ID for parking and fleet management, access control, asset loss prevention at airports, gated communities, truck and bus terminals, employee parking lots, hospitals, industrial facilities, railroads, mines and military installations.

The Company recognizes revenue on wireless and RFID products when the customer has control of the equipment, which is determined to be at the point in time when the products are shipped. Where applicable, we identify multiple performance obligations and record revenue as the performance obligations are fulfilled based on their stated prices within the contract.

Electronic Monitoring Services Revenue

Electronic monitoring services represent fees the Company collects through the sale or rental of its PureSecurity Suite of products, which include the PureMonitor, PureTrack, PureTag, PureCom, PureBeacon, and SCRAM devices. These devices identify, track, and monitor people or objects in real time through the Company's GPS monitoring, home monitoring, and alcohol tracking solutions.

The Company recognizes revenue on the sale of electronic monitoring products when the customer has control of the equipment, which is determined to be at the point in time when the products are shipped. For devices which are rented and for electronic monitoring services provided, we recognize revenue pursuant to the time elapsed for such contracts, as that is when our performance obligation to our customers under such arrangements is fulfilled. Our customers typically pay for these services based on a net rate per day per individual or on a fixed monthly rate.

Treatment Services Revenue

Treatment services revenue is an extension of the Company's electronic monitoring services. We provide individuals who have completed or are near the end of their sentence with the resources necessary to productively transition back into society. Through our daily reporting centers, we provide criminal justice programs and reentry services to help reduce recidivism which include case management, substance abuse education, vocational training, parental support, employment readiness and job placement. These activities are considered to be a bundle of services which are a part of a series of distinct services recognized over time.

The Company recognizes revenue from its treatment services using the input method of accounting. Under the input method, revenue is recognized revenue on the basis of an entity's efforts or inputs toward satisfying a performance obligation. We recognize revenue from treatment services provided pursuant to time-and-materials based contracts as the services are performed, as that is when our performance obligation to our customers under such arrangements is fulfilled. Where applicable, we identify multiple performance obligations and record revenue as the performance obligations are fulfilled based on the using the expected cost plus a margin approach.

Professional Services Revenue

The Company offers professional services for the Company's Cyber Security software products, which includes an on-site / remote visit by a specialist technician to assist with installation, deployment and configuration.

The Company recognizes revenue from professional services upon completion of the service performed for the customer. As these services are completed during a single onsite visit, revenue is recognized at the point in time of such onsite visit.

Disaggregation of revenue

In the following table, revenue is disaggregated by major geographic region and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the reportable segments:

	Year ended December 31, 2023			
	Cyber Security	IoT	e-Gov	Total
Major geographic areas				
Africa	\$ -	\$ -	\$ 1455	\$ 1455
European countries	328	17,256	89	17673
South America	12	-	-	12
United States	279	6,487	-	6,766
Israel	562	23	-	585
APAC	79	-	-	79
Total revenue	<u>\$ 1,260</u>	<u>\$ 23,766</u>	<u>\$ 1,544</u>	<u>\$ 26,570</u>
Timing of revenue recognition				
Products and services transferred over time	\$ 343	\$ 8,262	\$ 1455	\$ 10,060
Products transferred at a point in time	917	15,504	89	16,510
Total revenue	<u>\$ 1,260</u>	<u>\$ 23,766</u>	<u>\$ 1,544</u>	<u>\$ 26,570</u>

Transaction price allocated to the remaining performance obligations.

Remaining performance obligations represent the transaction price of system deployment, service and maintenance contracts for which work has not been performed as of the period end date. As of December 31, 2023, the aggregate amount of the transaction price allocated to remaining performance obligations totals \$19.557 million. The Company expects approximately 68% of remaining performance obligations to be recognized into revenue within the next 12 months, with the remaining 32% recognized thereafter.

We apply the practical expedient in paragraph ASC 606-10-50-14 and do not disclose information about remaining performance obligations that have original expected durations of one-year or less. We apply the transition practical expedient in paragraph ASC 606-10-65-1(f)(3) and do not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when we expect to recognize that amount as revenue. Additionally, applying the practical expedient in paragraph ASC 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts (i.e., commissions) as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one-year or less.

With respect to our e-Gov business, in some contracts we provide our customers with a license to issue IDs, passports and driver licenses and we are entitled to receive royalties upon the issuance of each form of document by our customers. Such royalties are recognized when the issuances are reported to us, usually on a monthly basis, for the year 2023 and 2022 we had no such contract.

Allowance for Doubtful Accounts

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

We perform ongoing credit evaluations of our customers' financial conditions and we require collateral as we deem necessary. An allowance for doubtful accounts is determined with respect to those accounts that we have determined to be doubtful of collection. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required. The allowance for doubtful accounts was \$14,124,000 and \$12,667,000 as of December 31, 2023 and 2022, respectively.

Deferred Taxes

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

C. RESEARCH AND DEVELOPMENT

Our research and development efforts have enabled us to offer our customers with a broader line of products and solutions for the e-Gov, IoT and Cyber Security segments. As of December 31, 2023, the number of employees in our research and development activities was 43. We spent \$4,762,000 (out of which \$1,652,000 was capitalized as cost of software to be sold), \$5,025,000 (out of which \$1,613,000 was capitalized as cost of software to be sold) and \$3,502,000 (out of which \$739,000 was capitalized as cost of software to be sold), in 2023, 2022 and 2021, respectively. These amounts were spent on the development or improvement of our technologies and products, primarily in the areas of IoT and Cyber Security. We intend to continue to research and develop new technologies and products. There can be no assurance that we can achieve any or all of our research and development goals.

D. TREND INFORMATION

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

E. CRITICAL ACCOUNTING ESTIMATES DISCLOSURE

See discussion in Part B of "Item 5. Operating and Financial Review and Prospects" for a description of the Critical Accounting Estimates Disclosure relevant to us.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Arie Trabelsi	66	Director
Tal Naftali Shmuel	38	Independent Director (1) (2)(3)
Oren Raoul De Lange	46	Independent Director (1)(2)(3)
Shoshana Cohen Shapira	66	Independent Director (1)(2)(3)

- (1) "Independent Director"
- (2) Member of the Audit Committee
- (3) Member of the Compensation Committee

Arie Trabelsi. Mr. Trabelsi joined us in November 2010 as President and Chief Executive Officer. He served as our Chief Executive Officer from November 1, 2010 until November 12, 2011 and from June 1, 2012 to February 21, 2022, and served as Chairman of our board of directors from December 12, 2011 to December 27, 2012, and from February 24, 2019 to date. He has more than 30 years of experience in the global wireless, Internet and communications industries. Mr. Trabelsi holds a BSc. Degree in Electrical and Computer Engineering from Ben Gurion University and a MSc. Degree in Computer Engineering from Drexel University, Philadelphia, Pennsylvania.

Shoshana Cohen Shapira, is an Advocate, Notary and Mediator with extensive experience in providing legal representation and consulting services to individuals and companies in various areas of law including taxes. She is the owner of a legal practice with office in Zichron Yaacov, Israel. Mrs. Cohen Shapira holds a LLM degree from the Hebrew University of Jerusalem.

Oren Raoul De Lange, is an Attorney, and a Certified Public Accountant, CPA in Israel with experience in US GAAP and IFRS, as well as with various areas of law including commercial and taxes. Mr. De Lange had served in Ernst & Young, High Tech Sector & Israeli tax Department from 2015 until 2017, as well as a Director of Finance of Orbs Ltd since 2017 until January, 2021. Mr. De Lange holds a LL.B and B.A degrees from the I.D.C Herzliya, Israel.

Tal Naftali Shmuel, is a Certified Public Accountant, CPA in Israel with more than 10 years of experience in GAAP, IFRS, Financial Statement auditing and taxes. Mr. Shmuel has extensive experience in providing representation and consulting services to individuals and companies in various areas of taxes and finance. Mr. Shmuel is the Owner and the head of a CPA firm in Israel. Mr. Shmuel holds a B.A degrees in accounting and economics from Rupin College, Israel.

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

Executive Officers and Key Employees

Our executive officers and certain key employees as of April 22, 2024 are:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Ordan Trabelsi*	38	President, Chief Executive Officer
Barak Trabelsi*	37	Chief Operating Officer and CTO
Gil Alfi	52	Vice President Sales, Safend Ltd
Lester Villeneuve	55	Managing Director LCA , USA

* Executive officer

Ordan Trabelsi. Mr. Trabelsi serves as our President and Chief Operating Officer since February 21, 2022. Previously he led our business and operations in the Americas through his roles as President of SuperCom Inc. and Leaders in Community Alternatives, Inc. He has been with the Company since May 2013 as the second US employee and grew the business in the USA. He has also led numerous successful financings for the Company, including two public offerings. Trabelsi has experience in strategic merger and acquisition, financing and product strategies as well as technology expertise in security, cyber, mobile and internet networks technologies. Mr. Trabelsi holds a BSc. degree in Software and Electrical Engineering from the Technion - Israel Institute of Technology, and an M.B.A. degree from the Columbia University Business School, New York, both with distinction.

Barak Trabelsi. Mr. Trabelsi joined us in January 2013 as director of new products development, He served as our VP of IoT from 2016 until February 21, 2022 and serves as VP and Chief Operating Officer since February 21, 2022. Previously and commencing in June 2011, he served as Senior Product Manager in Equinox Ltd. Prior to that, for four years, he served as VP of R&D of Sigma Wave, a wireless, security and internet focused company. Mr. Trabelsi has expertise in big data, cyber, mobile and internet networks technologies, and experience in product development and strategies. Mr. Trabelsi holds a BSc. Degree in Computer and Business from the Tel Aviv University, and an M.B.A. degree from Tel Aviv University.

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

Lester Villeneuve. Mr. Lester Villeneuve has recently joined the SuperCom Group as the Executive Director for Leaders in Community Alternatives (LCA). Mr. Villeneuve is well versed and experienced working with a variety of offender risk / need populations, stakeholders, and collaborative partners. He has worked extensively with individuals in contact with the criminal justice system including several years as a Social Worker in a large urban jail, as a Senior Director of Community Justice for a large non-profit organization, and as the Director of Jail-Based Mental Health Services in San Diego. Mr. Villeneuve has also spent two years with LCA, beginning in 2015 as the Director of the Sacramento ADRC in collaboration with County Probation there. Mr. Villeneuve holds a BA in Psychology from the University of Rhode Island and an MS in Criminal Justice from the University of New Haven.

Board Diversity

The table below provides certain information regarding the diversity of our board of directors as of the date of this Annual Report.

Board Diversity Matrix				
Country of Principal Executive Offices	Israel			
Foreign Private Issuer	Yes			
Disclosure Prohibited Under Home Country Law	No			
Total Number of Directors	4			
Part I: Gender Identity	Female	Male	Non-Binary	Did Not Disclose Gender
Directors	1	3	0	0
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction	0			
LGBTQ+	0			
Did Not Disclose Demographic Background	0			

B. COMPENSATION

The following table sets forth all compensation we paid with respect to all of our directors and executive officers as a group for the year ended December 31, 2023.

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
All directors and executive officers as a group (6 persons)	\$ 580,878	\$ 53,964

The aggregate amount of compensation paid by us to our board members and executive officers as a group for the year ended December 31, 2023 was approximately \$580,878. This sum includes amounts paid for salary and commission and bonuses. In addition, we have provided automobiles to certain of our executive officers at our expense. As of December 31, 2023, we had set aside approximately \$53,964 to provide pension, retirement or similar benefits for certain of our executive officers.

The monthly fee for a director (other than with respect to our Chairman of the Board) is \$1,500 and for external director a monthly fee of approximately \$731 plus approximately \$281 for every board or audit committee meeting attended.

As of December 31, 2023, our directors and executive officers as a group, then consisting of 6 persons, held options to purchase an aggregate of 640,000 ordinary shares, of which 320,000 were exercisable as of December 31, 2023, at an average exercise price of \$3.25 per share.

Summary compensation table

The below table presents the compensation, on an individual basis, of our five most highly compensated office holders and key employees during or with respect to the year ended December 31, 2023, as required by regulations promulgated under the Israeli Companies Law.

Name and Position	Salary ⁽¹⁾	Bonus and commissions	Equity-Based Compensation ⁽²⁾	Total
Yoad Hayash Director of Sales	177,329	-	-	177,329
Arkady Tachman R&D director, e-Gov	180,652	-	-	180,652
Barak Trabelsi GM & Vice President, IoT	213,810	33,085	-	246,896
Ido Rozenfeld R&D	140,527	-	-	140,527
Gil Alfi Vice President Sales, Cyber	160,876	123,684	-	284,560

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

(2) Amounts reported in this column represent the expense recorded in our audited consolidated financial statements for the year ended December 31, 2023 based on the grant date fair value in accordance with accounting guidance for stock-based compensation. See Note 12.c to our audited consolidated financial statements for the year ended December 31, 2023.

C. BOARD PRACTICES

Corporate Governance Practices

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

Name	Position	Date Service Began	Date of Expiration of Current Term
Arie Trabelsi	Director	February 24, 2019	Annual general meeting
Tal Naftali Shmuel	Independent Director	March 17, 2022	Annual general meeting
Oren Raoul De Lange	Independent Director	March 28, 2021	March 28, 2026
Shoshana Cohen Shapira	Independent Director	February 24, 2019	February 23, 2025

Our Board of Directors is presently comprised of four (4) members, two of whom were elected as external directors under the provisions of the Israeli Companies Law. Our Articles of Association provide that the majority of the directors appointed to the Board of Directors will be independent directors. Mrs. Shapira, Mr. Shmuel, and Mr. De Lange satisfy the applicable requirements for independence under our Articles of Association.

Alternate Directors

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

External Directors

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

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

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

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

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

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

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

Audit Committee

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

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

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

- Monitoring deficiencies in the management of the company, including in consultation with the independent auditors or the internal auditor, and advising the board of directors on how to correct such deficiencies. If the audit committee finds a material deficiency, it will hold at least one meeting regarding such material deficiency, with the presence of the internal auditor or the independent auditors but without the presence of the senior management of the company. However, a member of the company's senior management can participate in the meeting in order to present an issue which is under his or her responsibility.
- Determining, on the basis of detailed arguments, whether to classify certain engagements or transactions as material or extraordinary, as applicable, and therefore as requiring special approval under the Companies Law. The audit committee must make such determination according to principles and guidelines predetermined on an annual basis.
- Determining if transactions (excluding extraordinary transactions) with a controlling shareholder, or in which a controlling shareholder has a personal interest, are required to be rendered pursuant to a competitive procedure.
- Deciding whether to approve engagements or transactions that require the audit committee approval under the Companies Law.
- Determining the approval procedure of non-extraordinary transactions, following classification as such by the audit committee, including whether such specific non-extraordinary transactions require the approval of the audit committee.
- Examining and approving the annual and periodic working plans of the internal auditor.
- Overseeing the company's internal auditing and the performance of the internal auditor and confirming that the internal auditor has sufficient tools and resources at his disposal, taking into account, among other factors, the special requirements of the company and its size;

- Examining the scope of work of the independent auditor and its pay, and bringing such recommendations on these issue before the board.
- Determining the procedure for addressing complaints of employees regarding shortcomings in the management of the company and ensuring the protection of employees who have filed such complaints.
- Determining, with respect to transactions with the controlling shareholder or in which such controlling shareholder has a personal interest, whether such transactions are extraordinary or not, whether there is an obligation to conduct a competitive process under the supervision of the audit committee and whether, prior to entering into such transaction, the company should conduct any other process that the audit committee may deem fit, all taking into account the type of the company. The audit committee may set such qualifications up to one year in advance.
- Determining the manner of approval of transactions with the controlling shareholder or in which the controlling shareholder has a personal interest which (i) are not negligible transactions (pursuant to the committee's determination) and (ii) are not qualified by the committee as extraordinary transactions.

Compensation Committee

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

Management Employment Agreements

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

Approval of Certain Transactions

Fiduciary Duties of Office Holders

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

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

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

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

Approval of a Compensation Policy for Office Holders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Duties of Shareholders

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

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

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

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

Exculpation, Insurance and Indemnification of Directors and Officers

Exculpation of Office Holders

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

Office Holder Insurance

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

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

Indemnification of Office Holders

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

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

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

Limitations on Exculpation, Insurance and Indemnification

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

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

Required Approvals

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

D. EMPLOYEES

As of December 31, 2023, 2022 and 2021, we had 121, 122 and 114 full-time employees, respectively (not including service providers). The following table describes our employees and the employees of our subsidiaries by department.

	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
Research, Development & Operations	98	91	93
Marketing and Sales	8	9	8
Administration	15	22	13
Total	121	122	114

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

	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
Israel & Europe	53	58	53
United States	68	64	61
Total	121	122	114

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

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

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

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

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

E. SHARE OWNERSHIP

Beneficial Ownership by Executive Officers and Directors

The following table sets forth certain information as of December 31, 2023, regarding the beneficial ownership of our ordinary shares by each of our directors and all of our executive officers and directors as a group.

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Arie Trabelsi(3)	800,021	6.02%
Tal Naftali Shmuel	—	—
Shoshana Cohen Shapira	—	—
Oren Raoul De Lange	—	—
All executive officers and directors as a group (6 persons)	800,021	6.02%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 13,291,028 ordinary shares issued and outstanding as of December 31, 2023.
- (3) Sigma Wave Ltd. is controlled by Mrs. Tsviya Trabelsi, and by her husband, Mr. Arie Trabelsi. As such, Mr. Trabelsi may be deemed to beneficially own the 800,021 ordinary shares beneficially held by Sigma Wave Ltd.

Share Option Plans

In 2003, we adopted the SuperCom Ltd. 2003 Israeli Share Option Plan, a stock option plan under which we now issue stock options, or the Option Plan. The Option Plan is intended to provide incentives to our employees, officers, directors and/or consultants by providing them with the opportunity to purchase our ordinary shares. The Option Plan is subject to the provisions of the Companies Law, administered by the audit committee, and is designed: (i) to comply with Section 102 of the Israeli Tax Ordinance or any provision which may amend or replace it and the rules promulgated thereunder and to enable us and grantees thereunder to benefit from Section 102 of the Israeli Tax Ordinance and the Commissioner's Rules; and (ii) to enable us to grant options and issue shares outside the context of Section 102 of the Israeli Tax Ordinance. Options granted under the Option Plan will become exercisable ratably over a period of three to five years or immediately in certain circumstances, commencing with the date of grant. The options generally expire no later than 10 years from the date of grant. Any options that are forfeited or canceled before expiration become available for future grants. As of December 31, 2023, 416,975 options were exercisable, and 822,175 options were outstanding.

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

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

In April 2023, the Option plan was extended for another period of 10 years, until December 31, 2033.

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

	Year ended December 31					
	2023		2022		2021	
	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	811,050	\$ 3.58	21,388	\$ 12.3	33,484	\$ 23.1
Granted	22,000	\$ 1.23	800,937	\$ 3.25	-	\$ -
Exercised	(250)	\$ 1.00	(1,650)	\$ 1.00	(4,496)	\$ 4.1
Canceled and forfeited	(10,625)	\$ 4.17	(9,625)	\$ 3.79	(7,600)	\$ 22.2
Outstanding at end of year	822,175	\$ 3.51	811,050	\$ 3.58	21,388	\$ 12.3
Exercisable at end of year	416,975	\$ 3.80	213,597	\$ 4.15	15,950	\$ 12.8

We recognized compensation expenses related to our share-based employee compensation awards of \$243,000, \$138,000 and \$31,000 for the years ended December 31, 2023, 2022 and 2021

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

	Year ended December 31,		
	2023	2022	2021
Cost of revenues	\$ 13	\$ 17	\$ 7
Research and development expenses	95	67	12
Selling and marketing expenses	7	7	7
General and administrative expenses	128	47	5
	<u>\$ 243</u>	<u>\$ 138</u>	<u>\$ 31</u>

The options outstanding and exercisable as of December 31, 2023, have the following ranges of exercise prices as follows:

Range of exercise price	Options outstanding				Options Exercisable			
	Number outstanding as of December 31, 2023	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value	Number outstanding as of December 31, 2023	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value
			\$	\$			\$	\$
\$								
0.00-20.00	822,175	5.54	3.51	-	416,975	5.55	3.80	-
20.00-50.00	-	-	-	-	-	-	-	-
	<u>822,175</u>	<u>5.54</u>	<u>3.51</u>	<u>-</u>	<u>416,975</u>	<u>5.55</u>	<u>3.80</u>	<u>-</u>

The total intrinsic value of options exercised during the years ended December 31, 2023, and 2022 was \$0 and \$0, respectively, based on our company's average stock price of \$0.58 and \$5.08 during the years ended on those dates respectively.

A summary of the status of options granted to employees that had vested as of December 31, 2023 is presented below:

	Options	Weighted-average grant-date fair value
Non-vested at January 1, 2023	597,453	\$ 3.51
Granted	22,000	\$ 1.23
Vested	(204,978)	\$ 3.46
Forfeited and canceled	(9,275)	\$ 3.68
Non-vested at December 31, 2023	405,200	\$ 3.20

As of December 31, 2023, 2022 and 2021, there was \$741,177, \$1,125,448 and \$66,000, respectively, of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the stock option plans.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table lists the beneficial ownership of our securities as of April 5, 2024 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. 20,231,041 of our ordinary shares were issued and outstanding:

None

Significant Changes in the Ownership of Major Shareholders

Sigma Wave Ltd is no longer a beneficial owner of greater than 5% or more of the outstanding shares of any class of our securities

Voting Rights of Major Shareholders

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

Record Holders

Based on a review of the information provided to us by our U.S. transfer agent, as of December 31, 2023, there were approximately 23 record holders, of which 14 record holders holding approximately 97.74% of our ordinary shares had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 97.66% of our outstanding ordinary shares as of such date).

B. RELATED PARTY TRANSACTIONS

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

Mr. Trabelsi has served as the Chief Executive Officer of the Company since June 1, 2012 until February 21, 2022. Mr. Trabelsi is the sole director of Sigma Wave, which is the controlling shareholder of the Company. On May 9, 2013, the general meeting of shareholders of the Company approved the payment of management fees to Mr. Trabelsi of \$10.6 per month plus social benefits and an annual bonus of the greater of 2% of the Company's annual net profit or 0.5% of annual revenues, but in no event greater than Mr. Trabelsi annual salary. As of December 31, 2023 and 2022, we had accrued \$18,000, and \$85,000, respectively as expenses arising from services provided by Mr. Trabelsi.

On April 29, 2012, the Board of Directors approved the recording of a floating charge on the Company's assets in favor of Mr. and Mrs. Trabelsi, unlimited in amount, in order to secure loans that are given by them from time to time to the Company. The short terms loans provided by Mrs. and Mr. Trabelsi during the years 2011 until 2023 ranged from \$2,809 up to \$2,662,470 and bore no interest. As of December 31, 2023, total loans were \$100. These loans bear no interest and are not attached to any price index.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

Legal Proceedings

We are party to legal proceedings in the normal course of our business. 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, will have a material adverse effect on our business, financial condition, results of operations or cash flows for any quarterly or annual period.

Dividend Distribution Policy

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

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

B. SIGNIFICANT CHANGES

Except as otherwise disclosed in this Annual Report, no significant change has occurred since December 31, 2023.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares trade on the NASDAQ Capital Market under the ticker symbol "SPCB". As of December 31, 2023, we had 13,291,012 ordinary shares issued and outstanding.

Annual Stock Information

The following table sets forth, for the periods indicated, the high and low closing prices of our ordinary shares on The NASDAQ Capital Market or the OTCQB Market, as applicable. All of the share price information provided below has been adjusted to give effect to a 1 share for 4.250002 shares reverse stock split effected on August 23, 2013, and has been adjusted to give effect to a 1 for 10 reverse stock split of our ordinary shares effected on November 23, 2022.

Year	High	Low
2013	\$ 56.5	\$ 3.0
2014	\$ 137.8	\$ 48.5
2015	\$ 138.4	\$ 44.6
2016	\$ 52.5	\$ 26.2
2017	\$ 43.6	\$ 21.7
2018	\$ 39.2	\$ 13.2
2019	\$ 17.5	\$ 5.9
2020	\$ 30.9	\$ 3.7
2021	\$ 29.5	\$ 4.0
2022	\$ 8.4	\$ 1.7
2023	\$ 2.7	\$ 0.34

Quarterly Stock Information

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

	<u>High</u>	<u>Low</u>
2021		
First Quarter	\$ 22.4	\$ 10.8
Second Quarter	\$ 16.7	\$ 11.9
Third Quarter	\$ 13.9	\$ 9.8
Fourth Quarter	\$ 10.9	\$ 4.4
2022		
First Quarter	\$ 7.1	\$ 4.8
Second Quarter	\$ 5.7	\$ 2.8
Third Quarter	\$ 4.6	\$ 2.6
Fourth Quarter	\$ 2.9	\$ 1.7
2023		
First Quarter	\$ 2.7	\$ 1.3
Second Quarter	\$ 1.5	\$ 0.94
Third Quarter	\$ 1.2	\$ 0.35
Fourth Quarter	\$ 1.1	\$ 0.34
2024		
First Quarter	\$ 0.55	\$ 0.15
Second Quarter	\$ 0.28	\$ 0.18

Monthly Stock Information

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

<u>Month</u>	<u>High</u>	<u>Low</u>
March 2024	\$ 0.55	\$ 0.17
April 2024	\$ 0.28	\$ 0.17
May 2024	\$ 0.22	\$ 0.17
June 2024	\$ 0.22	\$ 0.17
July 2024	\$ 0.28	\$ 0.18
Through August 14, 2024		

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares began trading on the NASDAQ Capital Market effective at the opening of trading on Tuesday, September 17, 2013 under the ticker symbol "SPCB".

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 100,000,000 ordinary shares par value NIS 2.5 per share, of which 13,291,028 ordinary shares were outstanding as of December 31, 2023.

DIRECTORS

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

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

FIDUCIARY DUTIES OF OFFICERS

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

APPROVAL OF CERTAIN TRANSACTIONS

Transactions with Office Holders; Extraordinary Transactions

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

The Israeli Companies Law requires that an office holder of the company promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction as defined under Israeli law, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants, siblings and parents of the office holder's spouse, and the spouses of any of the foregoing. In addition, the office holder must also disclose any interest held by any corporation in which the office holder is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction other than in the ordinary course of business, otherwise than on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities.

In the case of a transaction which is not an extraordinary transaction, after the office holder complies with the above disclosure requirement, only board approval is required unless the articles of association of the company provide otherwise. The transaction must not be adverse to the company's interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the articles of association, it also must be approved by the company's audit committee and then by the Board of Directors, and, under certain circumstances, by a meeting of the shareholders of the company.

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

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

Approval of a Compensation Policy for Office Holders

In accordance with the Companies Law, a public Company, such as our company, is required to adopt a compensation policy setting forth the principles to govern the terms of office and employment (including cash and equity-based compensation, exemption from liability, indemnification, D&O insurance and other benefits and payments related to the service and employment) of the Office Holders of the company. These amendments to the Companies Law also define the criteria to be considered or included in such compensation policy. The compensation policy have been approved by September 2013 by our 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.)

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

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

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

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

MERGERS

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

C. MATERIAL CONTRACTS

While we have numerous contracts with customers, representatives, distributors and landlords, except as described in Item 4. Information on the Company – Business Overview – Key Customer Contracts we do not deem any such individual contract to be material contracts which are not in the ordinary course of our business.

D. EXCHANGE CONTROLS

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

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

E. TAXATION

Taxation and Government Programs

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

Israeli Tax Considerations and Government Programs

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

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

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

General Corporate Tax Structure

Israeli companies are generally subject corporate tax on their taxable income at the rate of 23.0% in 2023, 2022 and 2021.

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

For the year 2023, our USA subsidiaries are subject to USA federal tax rate of 21%, to State tax rate of 8.84% in CA and 6.5% in NY, and to City tax of 6.5% in NYC.

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

General

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

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

Israeli residents

Individuals

Pursuant to amendments to the Tax Ordinance, effective as of January 1, 2012, the capital gains tax rate applicable to individuals upon the sale of securities is such individual's marginal tax rate but not more than 25%, or 30% with respect to an individual who meets the definition of a 'Substantial Shareholder' on the date of the sale of the securities or at any time during the 12 months preceding such date. A 'Substantial Shareholder' is defined as a person who, either alone or together with any other person, holds, directly or indirectly, at least 10% of any of the means of control of a company (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director). An additional tax at a rate of 3% on the capital gain tax rate may be imposed upon shareholders whose annual taxable income exceeds NIS 698,280 (in 2023) (hereinafter "Surcharge Tax").

Companies

The real capital gain on the sale of securities by a company will be taxed at the corporate tax rate applicable during the year of sale.

Non-Israeli residents

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

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

In addition, persons paying consideration for shares, including purchasers of shares, Israeli securities dealers effecting a transaction, or a financial institution through which securities being sold are held, are required, subject to any applicable exemptions and the demonstration by the selling shareholder of its non-Israeli residency and other requirements, to withhold tax upon the sale of publicly traded securities at a rate of 25% for individuals and at the corporate tax rate (23% in 2022) for corporations.

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

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

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

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

Tax on Dividends

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

U.S. Federal Income Taxation

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

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

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

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

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

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

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

Taxation of Dividends

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

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

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

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

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

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

Additional Tax on Investment Income

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

Disposition of Ordinary Shares

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

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

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

Passive Foreign Investment Companies

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

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

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

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

Backup Withholding and Information Reporting

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

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

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

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

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

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

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

The documents concerning our company that are referred to in this Annual Report may also be inspected at our offices located at 3 Rothschild Street, Tel Aviv, Israel.

I. SUBSIDIARY INFORMATION

Not applicable.

J. ANNUAL REPORT TO SECURITY HOLDERS

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Exposure to Market Risks

We may be exposed to a variety of risks, including changes in interest rates affecting primarily interest received on short-term deposits and foreign currency fluctuations. In 2023 our principal market risk was our exposure to currency exchange fluctuations. We may limit our exposure to currency exchange rate risk by using various hedging techniques (which was not used in 2022), including forward and option contracts. However, we cannot eliminate the effects of currency fluctuations altogether. Exchange rate fluctuations resulting in a devaluation of the U.S. dollar compared to the NIS could have a material adverse impact on our operating results and share price.

Foreign Currency Exchange Risk

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

We have operations in several countries in connection with the sale of our products. A substantial portion of our sales and expenditures are denominated in dollars. We have mitigated, and expect to continue to mitigate, a portion of our foreign currency exposure through salaries, marketing and support operations in which all costs are local currency based. As a result, our results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates (primarily the NIS). A hypothetical 10% movement in foreign currency rates (primarily the NIS) against the dollar, with all other variables held constant on the expected sales, would result in a decrease or increase in expected 2023 net income of approximately \$0.4 million.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Our management, under the supervision and with the participation of our Chief Executive Officer (CEO) and acting Chief Financial Officer (acting CFO), has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2023, pursuant to Rule 13a-15 under the Exchange Act. Based upon this evaluation, our CEO and acting CFO concluded that our disclosure controls and procedures were ineffective as of December 31, 2023 as a result of the material weakness identified in our internal control over financial reporting. This material weakness is discussed in our "Report of Management on Internal Control over Financial Reporting" below. Our management considers our internal control over financial reporting to be an integral part of our disclosure controls and procedures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2023. In making our assessment, our management used the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). A material weakness, as defined by SEC rules, is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified during management's assessment was a lack of sufficient resources in its accounting function resulting in a lack of segregation of duties and an insufficient level of monitoring and oversight, which restricted the Company's ability to gather, analyze, and properly review information in a timely manner."

Based on such assessment, management has concluded that, as of December 31, 2023, our internal control over financial reporting is ineffective.

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

Changes in Internal Control over Financial Reporting

During the period covered by this Annual Report ended December 31, 2023, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Registered Public Accounting Firm Fees

The following table sets forth, for each of the years indicated, the fees billed by our principal independent registered public accounting firms. All of such fees were pre-approved by our Audit Committee.

Services Rendered	Year Ended December 31,		
	2023	2022	2021
Audit fees	\$ 145,000	\$ 160,000	\$ 155,000
Audit-related fees	\$ -	\$ -	\$ -
Tax fees	\$ 12,000	\$ 12,000	\$ -
Total	\$ 157,000	\$ 172,000	\$ 155,000

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

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

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

Pre-Approval Policies and Procedures

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

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

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

Not applicable.

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

Not applicable.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

On December 21, 2022, we approved the replacement of Halperin Ilanit, Certified Public Accountants ("Halperin"), as our independent registered public accounting firm and the engagement of Yarel + Partners, CPA's ("Yarel"), as its new independent registered public accounting firm as of and for the year ended December 31, 2022. The change of auditors was mutually decided upon Halperin declared reduced auditing practices. As described below, the change in independent registered public accounting firm is not the result of disagreement with Halperin regarding the financial statements issued.

Our Annual Report on Form 20-F for the fiscal year ended December 31, 2021, including the financial statements audited by Halperin, was filed with the U.S. Securities and Exchange Commission on April 4, 2022 and, thus, Halperin then concluded its required services to us for the fiscal year ended December 31, 2021.

The audit report of Halperin on our consolidated financial statements for fiscal year ended December 31, 2021 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal year ended December 31, 2021, there were: (i) no disagreements within the meaning of Item 16F(a)(1)(iv) of Regulation S-K and the related instructions between us and Halperin on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Halperin's satisfaction, would have caused Halperin to make reference thereto in their reports; and (ii) no "reportable events" within the meaning of Item 16F(a)(1)(v) of Regulation S-K.

On January 12, 2023, our Audit Committee approved the appointment of Yarel to serve as our independent registered public accounting firm for the fiscal year ended December 31, 2022.

During the fiscal years ended December 31, 2021 and 2022 and the subsequent interim period through January 12, 2023, neither we nor anyone on our behalf has consulted with Yarel regarding (i) the application of accounting principles to a specific transaction, either completed or proposed or (ii) the type of audit opinion that might be rendered on our financial statements and, neither a written report nor oral advice was provided to us that Yarel concluded was an important factor considered by us in reaching a decision as to accounting, auditing or financial reporting issues, or (iii) any matter that was the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions), or (iv) any "reportable event" (as described in Item 304(a)(1)(v) of Regulation S-K).

We provided Halperin with a copy of the disclosures in this Form 20-F for the year 201 and has requested that Halperin furnish us with a letter addressed to the SEC stating whether it agrees with the statements made herein and if not, stating in what respects it does not agree. A copy of Halperin's letter, dated April 20, 2023, is filed as Exhibit 16.1 to this Annual Report.

ITEM 16G. CORPORATE GOVERNANCE

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

- The requirements regarding the directors' nominations process. Instead, we follow Israeli law and practice in accordance with which our directors are recommended by our board of directors for election by our shareholders. See Item 6C. "Directors, Senior Management and Employees - Board Practices - Election of Directors.
- The requirement to obtain shareholder approval for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Under Israeli law and practice, the approval of the board of directors is required for the establishment or amendment of equity-based compensation plans and private placements. Under Israeli regulations, Israeli companies whose shares have been publicly offered only outside of Israel or are listed for trade only on an exchange outside of Israel, such as our company, are exempt from the Israeli law requirement to obtain shareholder approval for private placements of a 20% or more interest in the company. For the approvals and procedures required under Israeli law and practice for an issuance that will result in a change of control of the company and acquisitions of the stock or assets of another company, see Item 6.C. "Directors, Senior Management and Employee - Board Practices - Approval of Certain Transactions Under Israeli Law-Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders" and Item 10.B. "Additional Information — Memorandum and Articles of Association"

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

ITEM 16J. INSIDER TRADING POLICIES

Pursuant to applicable SEC transition guidance, the disclosure required by this Item 16J will be applicable to the Company for the fiscal year ending December 31, 2024.

ITEM 16K. CYBERSECURITY

At SuperCom, cybersecurity risk management is an integral part of our overall enterprise risk management program. Our cybersecurity risk management program is designed to align with industry practices and provide a framework for handling cybersecurity threats and incidents, including threats and incidents associated with the use of third-party applications and services provide by third-party service providers, and facilitate coordination across different departments of our company.

This framework includes steps for (i) assessing the severity of a cybersecurity threat, (ii) identifying the source of a cybersecurity threat, (iii) implementing cybersecurity countermeasures and mitigation strategies and (iv) informing management of material cybersecurity threats and incidents.

Our cybersecurity team engages as needed our Cyber Security division experts for risk assessment and system enhancements. In addition, our cybersecurity team provides training annually.

Our Board of Directors has overall oversight responsibility for our risk management and delegates the daily supervision of cybersecurity issues to our Chairman of the Board, who is also the chairman of our Crisis Management Committee. The chairman of our Data Security Management Committee (as defined herein) reports material cybersecurity incidents to the Crisis Management Committee, and if needed, the chairman of our Crisis Management Committee will report the incident to our Board of Directors to take appropriate and timely measures in response to the incident.

Our management is responsible for identifying, considering, and assessing material cybersecurity risks on an ongoing basis, establishing processes to ensure that such potential cybersecurity risk exposures are monitored, putting in place appropriate mitigation measures and maintaining cybersecurity programs. We established our data security management committee (the "Data Security Management Committee") in 2023, composed of personnel from our cyber-Security division, IT center, and management team, to improve data security. The Data Security Management Committee is responsible for developing data security protection strategies, plans, and systems and providing required support and coordinating on major data security incidents. Our cybersecurity programs are under the direction of our chairman of Data Security Management Committee who receives reports from our cybersecurity team and monitors the prevention, detection, mitigation, and remediation of cybersecurity incidents. Our chairman of Data Security Management Committee and other dedicated personnel are experienced information systems security professionals with many years of experience. In addition, we established our crisis management committee (the "Crisis Management Committee"), chaired by our Chairman of the Board and composed of specialized teams to manage and respond to crisis in our business operations, including cybersecurity crisis.

In 2023, we did not identify any cybersecurity threats that have materially affected or are reasonably likely to materially affect our business strategy, results of operations, or financial condition. However, despite our efforts, we cannot eliminate all risks from cybersecurity threats, or provide assurances that we have not experienced an undetected cybersecurity incident. For more information about these risks, see "Item 3. Key Information — 3.D. Risk Factors — Risks Related to Our Business — Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18.

ITEM 18. FINANCIAL STATEMENTS

	Page No.
Index to Financial Statements	74
Report of Independent Registered Public Accounting Firm (PCAOB Name: Yarel + Partners/PCAOB ID No. 1024)	74
Consolidated Balance Sheets	F-1
Consolidated Statements of Operations	F-2
Statement of Changes in Shareholders' Equity	F-3
Consolidated Statements of Cash Flows	F-4
Notes to Consolidated Financial Statements	F-5 – F-36

ITEM 19. **EXHIBITS**

Index to Exhibits

Exhibit	Description
1.1	Memorandum of Association of the Company (1)
1.2	Amended Articles of Association of the Company (2)
2.1	Form of Stock Certificate representing ordinary shares (3)
2.2	Form of Registered Pre-Funded Warrant, dated March 31, 2023 (4)
2.3	Form of Private Warrant, dated March 31, 2023 (5)
2.4	Form of Warrant, dated August 3, 2023 (6)
2.5	Form of Pre-Funded Warrant, dated August 3, 2023 (7)
2.6	Form of Warrants, dated January 19, 2024 (8)
2.7	Form of Pre-Funded Warrants, dated January 19, 2024 (9)
2.8	Form of Pre-Funded Warrant, dated April 19, 2024 (10)
2.9	Form of Private Warrant, dated April 19, 2024 (11)
4.1	The SuperCom Ltd. 2003 Israeli Share Option Plan (12)
4.2	The SuperCom Ltd. 2007 U.S. Stock Option Plan (13)
4.3	Form of Indemnification Letter (14)
4.4	Form of Securities Purchase Agreement, dated as of August 2, 2023, between the Company and the party identified on the signature page thereto (15)
4.5	Warrant Amendment Agreement, dated August 2, 2023, between the Company and the party identified on the signature page thereto (16)
4.6	Form of Securities Purchase Agreement, dated March 30, 2023, between the Company and the party identified on the signature page thereto (17)
4.7	Form of Registration Rights Agreement, dated March 31, 2023, between the Company and the party identified on the signature page thereto (18)
4.8	Letter Agreement, dated November 14, 2023, between the Company and the party identified on the signature page thereto (19)
4.9	Form of Securities Purchase Agreement, dated as of April 18, 2024, between the Company and the purchaser identified on the signature pages thereto (20)
4.10	Form of Registration Rights Agreement, dated as of April 18, 2024, between the Company and the purchaser identified on the signature pages thereto (21)
4.11	Placement Agent Agreement, dated as of April 18, 2024, between the Company and Maxim Group LLC (22)
8.1	List of Subsidiaries (23)
11.1	Code of Ethics (24)
16.1	Letter to SEC by Halperin CPA Firm (20)
12.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
12.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
13.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Yarel + Partners CPA Firm
16.1	Letter to SEC by Halperin CPA Firm (25)
97	Compensation Recovery Policy of the Company (26)
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

† Portions of this exhibit (indicated by asterisks) have been omitted pursuant to Regulation S-K, Item 601(b)(10). Such omitted information is not material and would likely cause competitive harm to the registrant if publicly disclosed.

- (1) Filed as Exhibit 1.1 to the Registrant's Registration Statement on Form F-1, File number 333-189910, filed with the SEC on July 3, 2013, and incorporated herein by reference.
- (2) Filed as Exhibit 3.22 to the Registrant's Registration Statement on Form F-1, File number 001-33668, filed with the SEC on August 1, 2023, and incorporated herein by reference.
- (3) Filed as Exhibit 2.1 to the Registrant's Registration Statement on Form F-1, File number 333-189810, filed with the SEC on July 3, 2013, and incorporated herein by reference.
- (4) Filed as Exhibit 4.1 to the Registrant's Registration Report on Form 6-K, filed with the SEC on March 31, 2023, and incorporated herein by reference.
- (5) Filed as Exhibit 4.2 to the Registrant's Registration Report on Form 6-K, filed with the SEC on March 31, 2023, and incorporated herein by reference.
- (6) Filed as Exhibit 4.4 to the Registrant's Registration Statement on Form F-1, File number 333-273291, filed with the SEC on August 1, 2023, and incorporated herein by reference.
- (7) Filed as Exhibit 4.5 to the Registrant's Registration Statement on Form F-1, File number 333-273291, filed with the SEC on August 1, 2023, and incorporated herein by reference.
- (8) Filed as Exhibit 4.1 to the Registrant's Registration Report on Form 6-K, filed with the SEC on January 22, 2024, and incorporated herein by reference.
- (9) Filed as Exhibit 4.2 to the Registrant's Registration Report on Form 6-K, filed with the SEC on January 22, 2024, and incorporated herein by reference.
- (10) Filed as Exhibit 4.1 to the Registrant's Registration Report on Form 6-K, filed with the SEC on April 19, 2024, and incorporated herein by reference.
- (11) Filed as Exhibit 4.2 to the Registrant's Registration Report on Form 6-K, filed with the SEC on April 19, 2024, and incorporated herein by reference.
- (12) Filed as Exhibit 4.2(a) to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2011, filed with the Securities and Exchange Commission on May 9, 2012, and incorporated herein by reference.
- (13) Filed as Exhibit 4.2(b) to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2011, filed with the Securities and Exchange Commission on May 9, 2012, and incorporated herein by reference.
- (14) Filed as Exhibit 10.1 to the Registrant's Registration Statement on Form F-1, registration number 333-189810, filed with the Securities and Exchange Commission on July 3, 2013, and incorporated herein by reference.
- (15) Filed as Exhibit 10.6 to the Registrant's Registration Statement on Form F-1, File number 333-273291, filed with the SEC on August 1, 2023, and incorporated herein by reference.
- (16) Filed as Exhibit 10.2 to the Registrant's Report on Form 6-K, filed with the SEC on August 3, 2023, and incorporated herein by reference.
- (17) Filed as Exhibit 10.1 to the Registrant's Report on Form 6-K, filed with the SEC on March 31, 2023, and incorporated herein by reference.
- (18) Filed as Exhibit 10.2 to the Registrant's Report on Form 6-K, filed with the SEC on March 31, 2023, and incorporated herein by reference.
- (19) Filed as Exhibit 4.1 to the Registrant's Report on Form 6-K, filed with the SEC on November 15, 2023, and incorporated herein by reference.
- (20) Filed as Exhibit 10.1 to the Registrant's Registration Report on Form 6-K, filed with the SEC on April 19, 2024, and incorporated herein by reference.
- (21) Filed as Exhibit 10.2 to the Registrant's Registration Report on Form 6-K, filed with the SEC on April 19, 2024, and incorporated herein by reference.
- (22) Filed as Exhibit 10.3 to the Registrant's Registration Report on Form 6-K, filed with the SEC on April 19, 2024, and incorporated herein by reference.
- (23) Filed as Exhibit 8.1 to the Registrant's Annual Report on Form 20-F, filed with the SEC on April 20, 2023, and incorporated herein by reference.
- (24) Filed as Exhibit 11.1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2007, filed with the Securities and Exchange Commission on June 30, 2008, and incorporated herein by reference.
- (25) Filed as Exhibit 16.1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2022, filed with the SEC on April 20, 2023, and incorporated herein by reference.
- (26) Filed as Exhibit 97 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2023, filed with the SEC on April 22, 2024, and incorporated herein by reference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of SuperCom Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of SuperCom Ltd. (the Company) as of December 31, 2023 and 2022, and the related consolidated statements of operation and comprehensive loss, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill Impairment Assessment -

Description of the Matter

As described in Notes 2 to the consolidated financial statements, the Company's goodwill balance was \$7.026 million as of December 31, 2023. Management conducts an impairment test as of December 31 of each year, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired. The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit or intangible asset to its respective carrying value. Fair value is estimated by management using the income method, which is based on the present value of estimated future cash flows attributable to the respective unit. Management applies significant judgment which is affected by expectations about future market and economic conditions in estimating and making assumptions related to the appropriate discount rates, revenue growth and operating margins. Changes in the assumptions could have a significant impact on the amount of potential impairment charge.

How We Addressed the Matter in Our Audit

- We evaluated the methodology used and tested the significant assumptions used by the Company in its analysis.
- We evaluated management's ability to estimate financial projections by comparing actual results to management's historical financial projections.
- We assessed the sensitivity of goodwill impairment conclusions to changes in assumptions and estimates used in management's financial projections.
- We examined management's support for the current estimates and projections.
- We involved professionals with specialized skill and knowledge to assist in the evaluation of the Company's discounted cash flow model, growth rates, discount rates and market participant assumptions including testing the underlying source of information, and the mathematical accuracy of the calculations.

Allowance for credit losses -

Description of the Matter

As described in Note 2 to the consolidated financial statements, the Company records an allowance for credit losses when it determines that it is probable an account receivable has been impaired. This estimate is based on specific customer credit risk and credit evaluations. We identified the allowance for credit losses as a critical audit matter.

The main considerations for our determination that the allowance for *credit losses* is a critical audit matter include the high degree of estimation uncertainty resulting from significant management judgment. There is also a high degree of subjectivity in management's assessment of the reasonableness of the allowance for *credit losses*, specifically the portion of the receivable expected to be collected, which requires a heightened level of auditor judgement in auditing the estimate. Variations to this estimate could have a significant impact in the allowance recorded.

How We Addressed the Matter in Our Audit

- We obtained management's assessment and calculation of the allowance for *credit losses*, inquired of any known events that could impact the allowance calculation and obtained and inspected a sample of supporting documentation.
- We analyzed the historical changes to determine past accuracy in estimating the allowance.
- We tested a sample of aged customer balances that had not been reserved, and inspected payments made and communications between management and the customer, to evaluate the completeness of the allowance for credit losses.

Assessment of the capitalized internal costs to develop software -

Description of the Matter

As discussed in Note 2 to the consolidated financial statements, the Company capitalizes costs incurred to develop software during the application development stage. We identified the assessment of the capitalized internal costs to develop software as a critical audit matter. Subjective auditor judgment was required to assess the stage of software development for upgrades and enhancements for existing software, which determines when costs should be capitalized.

How We Addressed the Matter in Our Audit

- We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's capitalization software process. This included controls related to the evaluation and approval of software projects or upgrades and enhancements to existing software, monitoring of the software development stage, and capitalization of internal costs.
- We examined a sample of capitalized software costs to evaluate costs that were capitalized for software upgrades and enhancements. For each sample, we evaluated the capitalized costs and assessed the stage of software development by inspecting underlying documentation and inquiring of the Company's technology developers performing the internal-use software development activities regarding the specific nature, stage of completion, and hours incurred on the project.

Revenue Recognition - Estimates at Completion -

Description of the Matter

As described in Note 2 to the consolidated financial statements, revenues under contracts with governments and national agencies are generally recognized over time using the cost-to-cost method of accounting. Under this method, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the estimated costs at completion, and revenue is recorded proportionally as costs are incurred. Contract costs, which are estimated utilizing current contract specifications and expected engineering requirements, typically are incurred over a longer period than a fiscal year, and the estimation of these costs at completion requires substantial judgment. The Company's cost estimation process is based on professional knowledge and experience of engineers and project managers along with finance professionals.

Auditing the Company's estimated costs at completion for select long-term contracts was challenging and complex due to the judgment involved in evaluating management's assumptions and key estimates over the duration of the contracts. The estimated costs at completion for the select long-term contracts consider risks surrounding the Company's ability to achieve the technical requirements and specifications of the contract, schedule, and other cost elements of the contract, and depend on whether the Company is able to mitigate risks surrounding such aspects of the contract.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls related to the Company's revenue recognition process, including controls over management's review of the estimated costs at completion for the select long-term contracts and related key assumptions and management's review that the data underlying the estimated costs at completion was complete and accurate. To test the accuracy of the Company's estimated costs at completion for the selected contracts, our audit procedures included, among others, evaluating the key assumptions used by management to determine such estimate. This included evaluating the historical accuracy of management's estimates by comparing planned costs to actual costs incurred to date. We also tested the completeness and accuracy of the underlying data back to source documents and contracts.



Going concern assessment -

Description of the Matter

As discussed in Notes 1c to the consolidated financial statements, the company suffered recurring losses from operations, significant cash outflows and its accumulated deficit as of December 31, 2023 amounted to \$106.9 million. However, the Company has concluded that its current cash reserves together with its secured credit facilities, management's plans, and expected cash streams from current contracts with customers, alleviate the substantial doubt related to its ability to continue as a going concern for at least twelve months from the date of the approval of the accompanying consolidated financial statements.

We identified management's assumptions used to assess the Company's ability to continue as a going concern as a critical audit matter due to inherent complexities and uncertainties related to the Company's Management's plans. Auditing these assumptions involved especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters.

How We Addressed the Matter in Our Audit

- We Assessed the reasonableness of key assumptions underlying management's forecast operating cash flows, including revenue growth and gross margin assumptions and evaluated the reasonableness of management's forecast operating cash flows.
- We evaluated the probability that the Company will be able to reduce capital expenditures and other operating expenditures if required.
- We assessed management's plans in the context of other audit evidence obtained during the audit to determine whether it supported or contradicted the conclusions reached by management.
- We assessed the effect of events and reviewed agreements signed after balance sheet date.

Valuation of Inventory -

Description of the Matter

The Company's inventories balance was \$2.5 million as of December 31, 2023. In evaluating whether inventories are stated at lower of cost or net realizable value, management considers such factors as inventories in hand, estimated time to sell such inventories and current market conditions. Write-offs for slow inventory and inventory obsolescence are recorded when, in the opinion of management, the value of specific inventory items has been impaired.

We identified auditing the write-down of slow and obsolete inventories as a critical audit matter because of the significant assumptions and subjective judgments used by management, which involved the use of especially challenging and subjective auditor judgment when performing audit procedures and evaluating the results of those procedures.

How We Addressed the Matter in Our Audit

We obtained an understanding of the Company's inventory process and methodology, evaluated the design and tested the Company's net realizable values across each inventory and the reasonableness of assumptions, completeness, accuracy, and relevance of the underlying data used by management in the evaluation of write off reserve.

**Yarel + Partners
Certified Public Accountants (Isr.)**

Tel-Aviv, Israel

April 22, 2024, except for the accompanying consolidated statements of operation and comprehensive loss, changes in stockholders' equity, and cash flows for the year ended December 31, 2021, and the related notes for the year ended December 31, 2021, as to which the date is August 14, 2024.

We have served as the Company's auditor since 2023

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

	As of December 31,	
	2023	2022
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,206	\$ 4,042
Restricted bank deposit	371	463
Accounts receivable, net of allowance for doubtful accounts of \$14,124 and \$12,667 as of December 31, 2023 and 2022, respectively (Note 17)	13,357	10,852
Other current assets (Note 3)	1,742	2,239
Inventories, net (Note 4)	2,503	3,411
Patents held for sale	5,283	5,283
TOTAL CURRENT ASSETS	28,462	26,290
LONG-TERM ASSETS		
Property and equipment, net (Note 5)	2,701	1,640
Intangible assets, net (Note 6)	5,576	5,617
Goodwill	7,026	7,026
Other long-term assets (Note 7)	988	1,467
TOTAL LONG-TERM ASSETS	16,291	15,750
TOTAL ASSETS	44,753	42,040
CURRENT LIABILITIES		
Accounts payable	1,883	1,267
Employees and payroll accruals	1,015	1,339
Related parties (Note 15.c)	100	168
Short-term loans	792	900
Accrued expenses and other liabilities (Note 8)	485	469
Short-term operating lease liabilities (Note 9)	401	381
Deferred revenues	726	715
TOTAL CURRENT LIABILITIES	5,402	5,239
LONG-TERM LIABILITIES		
Long-term loans (Note 1d)	33,952	32,600
Other long-term liabilities (Note 11)	583	1,070
TOTAL LONG TERM LIABILITIES	34,535	33,670
TOTAL LIABILITIES	39,937	38,909
Commitments and contingent liabilities (Note 12)		
SHAREHOLDERS' EQUITY (Note 14)		
Ordinary shares, NIS 2.5 par value - authorized 100,000,000 shares, 13,291,028 and 4,206,327 shares issued and outstanding at December 31, 2023 and 2022, respectively	9,094	3,057
Additional paid-in capital	102,670	103,000
Accumulated deficit	(106,948)	(102,926)
Total shareholders' equity	4,816	3,131
Total liabilities and shareholders' equity	\$ 44,753	\$ 42,040

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

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

	Year Ended December 31,		
	2023	2022	2021
Revenues			
Products	\$ 19,767	\$ 10,100	\$ 4,475
Services	6,803	7,549	7,792
Total revenues	<u>26,570</u>	<u>17,649</u>	<u>12,267</u>
Cost of revenues			
Cost of products	11,175	7,261	1,935
Cost of services	5,172	4,000	4,128
Total cost of revenues	<u>16,347</u>	<u>11,261</u>	<u>6,063</u>
Gross profit	<u>10,223</u>	<u>6,388</u>	<u>6,204</u>
Operating expenses:			
Research and development	3,110	3,412	2,763
Sales and marketing	2,200	2,657	1,655
General and administrative	5,460	5,186	4,149
Other(income) expense, net	2,812	1,138	4,374
Total operating expenses	<u>13,582</u>	<u>12,393</u>	<u>12,941</u>
Operating loss	(3,359)	(6,005)	(6,737)
Financial expenses, net	(663)	(1,751)	(3,396)
Loss before income taxes	<u>(4,022)</u>	<u>(7,756)</u>	<u>(10,133)</u>
Income tax	-	299	(5)
Net loss	<u>\$ (4,022)</u>	<u>\$ (7,457)</u>	<u>\$ (10,138)</u>
Net loss per share:			
Basic and Diluted	<u>\$ (0.6)</u>	<u>\$ (2.0)</u>	<u>\$ (3.9)</u>
Shares used in calculation of net income per share:			
Basic and Diluted	<u>6,762,038</u>	<u>3,691,226</u>	<u>2,619,810</u>

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

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

	Ordinary Shares		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
	Number of Shares	Share Capital			
Balance as of December 31, 2020	1,999,875	1,397	88,853	(85,331)	4,919
Exercise of options	4,496	4	15	-	19
Conversion of Loan	819,567	627	8,934	-	9,561
Stock based compensation	-	-	31	-	31
Net loss	-	-	-	(10,138)	(10,138)
Balance as of December 31, 2021	2,823,938	2,028	97,833	(95,469)	4,392
Conversion of loans	54,396	36	175	-	211
Exercise of options	1,650	1	-	-	1
Stock based compensation	-	-	138	-	138
Share Issuance for a total consideration of \$6,389 net of \$543 issuance expenses	1,326,343	992	4,854	-	5,846
Net loss	-	-	-	(7,457)	(7,457)
Balance as of December 31, 2022	4,206,327	\$ 3,057	\$ 103,000	\$ (102,926)	\$ 3,131
Conversion of loans	518,644	361	531	-	892
Exercise of options and warrants	1,081,250	718	2,574,451	-	3,292
Stock based compensation	-	-	243	-	243
Share Issuance for a total consideration of \$1,393 net of \$113 issuance expenses	7,484,820	4,958	(3,678)	-	1,280
Net loss	-	-	-	(4,022)	(4,022)
Balance as of December 31, 2023	13,291,041	\$ 9,094	\$ 102,670	\$ (106,948)	\$ 4,816

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

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

	Year Ended December 31,		
	2023	2022	2021
CASH FLOWS - OPERATING ACTIVITIES			
Net loss	\$ (4,022)	\$ (7,457)	\$ (10,138)
Adjustments to reconcile net loss to net cash used in operating activities:			
Accrued interest on loans	2,148	2,360	4,470
Depreciation and amortization	2,980	2,691	2,237
Stock-based compensation	243	138	31
Decrease in deferred tax	-	(299)	2
Change in Fair value of derivative warrants liability	(2,313)	-	-
Credit Losses	1,457	1,000	3,078
Inventory write-downs	180	138	(94)
Decrease in accounts receivables, net	(4,135)	(791)	(1,712)
Decrease (increase) in other current assets	670	(640)	(728)
Decrease (increase) in inventories, net	728	12	(1,063)
Increase (decrease) in accounts payables	616	(128)	(1,465)
Increase (decrease) in employees and payroll accruals	(325)	(780)	(508)
Increase (decrease) in accrued severance pay	(41)	51	(83)
Lease liability	(604)	(436)	(275)
Increase (decrease) in accrued expenses and other liabilities, related parties & deferred revenues	51	(513)	(3,449)
Net cash used in operating activities	<u>(2,367)</u>	<u>(4,654)</u>	<u>(9,697)</u>
CASH FLOWS - INVESTING ACTIVITIES			
Purchase of property and equipment	(1,714)	(524)	(949)
Capitalization of software development costs	(1,652)	(1,613)	(743)
Increase in severance pay fund	-	(52)	-
Net cash used in investing activities	<u>(3,366)</u>	<u>(2,189)</u>	<u>(1,692)</u>
CASH FLOWS - FINANCING ACTIVITIES			
Related parties	(68)	(4)	(1,577)
Proceeds from loans and credit	-	900	13,600
Proceeds from exercise of options and warrants, net	1,819	-	19
Shares and warrants issuance, net	5,054	5,848	-
Net cash provided by financing activities	<u>6,805</u>	<u>6,744</u>	<u>12,041</u>
Increase (decrease) in cash, cash equivalents, and restricted cash	1,072	(99)	652
Cash, cash equivalents, and restricted cash - beginning of year	<u>4,505</u>	<u>4,604</u>	<u>3,952</u>
Cash, cash equivalents, and restricted cash - end of year	<u>\$ 5,577</u>	<u>\$ 4,505</u>	<u>\$ 4,604</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for taxes	\$ -	\$ -	\$ -
Cash paid for interest, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NON-CASH TRANSACTIONS:			
Conversion of loans and warrant into ordinary shares	<u>\$ 2,251</u>	<u>\$ 212</u>	<u>\$ 9,561</u>

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

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 1: GENERAL

- a. SuperCom Ltd. (the "Company") is an Israeli resident company organized in 1988 in Israel. The Company's ordinary shares were approved for listing on the NASDAQ Capital Market and began trading under the ticker symbol "SPCB" on September 17, 2013

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

- b. During 2021 and 2022, The Company's business, trading and operations were impacted materially by COVID-19.

2023 was a year of returning to normal as the Covid-19 global pandemic's had no impact on our operations in Israel, USA and worldwide. Our sales, project operations and R&D processes have return to normal per our current business plan. While returning fully to our business plan, we have optimized the operations of our Company, and our operating costs except for our investment in R&D which continued to enhance our product offerings and competitive standing among our target markets, our optimized company generated numerous new opportunities and large project wins in our target markets, but required us to use resources in many cases that have yet to yield income to our Company as part of multi-year government sale and project deployment life cycles.

- c. *Liquidity Analysis*

The Company has experienced net losses and significant cash outflows from cash used in operating activities over the past years. As of and for the year ended December 31, 2023, the Company had an accumulated deficit of \$106,948, and net cash used in operating activities of \$2,367 compared to \$4,654, and 9,697 for the year ended December 31, 2022 and 2021 respectively.

Management has evaluated the significance of the conditions described above in relation to the Company's ability to meet its obligations and noted that as of December 31, 2023, the Company had cash, cash equivalent and restricted cash of \$5,577 and positive working capital of \$23,059.

Additionally, the Company secured financing of \$20,000 Fortress Investment Group during 2018, of which, \$6,000 remains available to the Company to draw during the 12 months following the balance sheet date, under certain conditions. Throughout 2021, the Company also secured through the issuance of multiple notes, aggregate gross proceeds of \$12,000 of subordinated debt ("Subordinated Debt") and \$1,600 of promissory notes. In 2022, the Company raised a net amount of approximately \$5,848 in proceeds from accredited investors. To date, the Company has used the proceeds from the secured financing, subordinated debt and private placement and public offerings (i) to satisfy certain indebtedness; and (ii) for general corporate purposes and (iii) working capital needs for multiple new government customer contracts with significant positive cash flow.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 1: GENERAL (cont.)

On March 30, 2023, the Company raised approximately \$2.4 million in gross proceeds in a registered direct offering with a single accredited institutional investor through the sale of an aggregate of 485,000 of its ordinary shares, and 1,032,615 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent private placement to such Purchaser of the Company's private warrants to purchase an aggregate of 1,517,615 of its ordinary shares at an exercise price of \$1.66 per share.

On August 3, 2023, the Company raised approximately \$2.75 million in gross proceeds in a registered direct offering with a single accredited institutional investor through the sale of an aggregate of 661,000 of its ordinary shares, and 2,574,295 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent private placement to such Purchaser of the Company's private warrants to purchase an aggregate of 3,235,295 of its ordinary shares at an exercise price of \$0.85 per share.

On November 15, 2023, the Company raised approximately \$2.0 million in gross proceeds in a warrant exercise and reload with a single accredited institutional investor through warrant exercise of 1,081,000 warrant to ordinary shares, and warrant exercise of 3,671,910 warrant to pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent warrant reload to such Purchaser of the Company's private warrants to purchase an aggregate of 9,505,820 of its ordinary shares at an exercise price of \$0.5 per share.

On April 19, 2024, the Company raised approximately \$2.9 million in gross proceeds in a registered direct offering with a single accredited institutional investor through the sale of an aggregate of 2,873,885 of its ordinary shares, and 5,242,270 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent private placement to such Purchaser of the Company's private warrants to purchase an aggregate of 8,116,155 of its ordinary shares at an exercise price of \$0.38 per share

Furthermore, the available \$6,000 in the secured credit facility from Fortress Investment Group may provide, under certain conditions, the Company additional access to capital if needed.

The Company believes that based on the above-mentioned secured financings, management's plans, maintaining the cost savings and expected cash streams from the Company's current contracts with customers worldwide, it will be able to fund its operations for at least the next 12 months.

d. *Senior Secured Credit Facility and Subordinated Debt*

On September 6, 2018 and October 26, 2018, through a two-stage closing process, the Company entered into a Senior Secured Credit Facility with affiliates of Fortress Investment Group LLC ("Fortress") with an aggregate principal amount of up to \$20,000 (the "Credit Facility"). The Initial Term Loan which finalized on October 26, 2018 has an aggregate principal of \$10,000, and the Incremental Term Loan provides for up to an additional \$10,000 in principal through Incremental Draws of at least \$1,000 each. In 2019, a total of \$4,000 gross was drawn on the Incremental Term Loan, and some of the terms of the Credit Facility were amended to support the needs of the company. The Credit Facility bears interest on the borrowed balance at a rate per annum equal to LIBOR plus an applicable margin (the "Interest Margin") dependent on the EBITDA Leverage Ratio which is calculated and reset on a quarterly basis (8.0% for an EBITDA Leverage Ratio greater than or equal to 2.50x; 7.0% for an EBITDA Leverage Ratio less than 2.50x). At the Company's election, interest is paid in cash or in-kind in the amount of 4% per annum of the Interest Margin. The balance of interest is payable in cash monthly in arrears. For amounts which remain un-borrowed, the Company incurs interest at a rate of 0.50% per annum ("Unused Fee"). From closing and until today, the Company only paid monthly interest payments. The majority of the principal to be paid via a bullet payment at the maturity date, which the company expects to be amended to December 2028. As of December 31, 2023, the outstanding balance of the Credit Facility was \$17,662

The Credit Facility is subject to an original issue discount equal to 2.5% of any drawn amounts, and amounts repaid cannot be re-borrowed. At maturity, an end-of-term fee of 2.25% to 4.5% is owed by the Company for any amounts drawn. In connection with securing the Credit Facility, the Company incurred legal and due diligence fees, which are recorded together with the original issue discount and end-of-term fee, and amortized into interest expense over the life of the Credit Facility.

In connection with the Credit Facility, the Investor received 25,000 warrants initially and an additional 75,000 warrants for amendments (the "Credit Facility Warrants") and purchased 106,705 unregistered common shares at a share price of \$1.87 from the Company at a total of \$200. The Credit Facility Warrants mature 7 years from the date of issuance, were set to be issued at a strike price at a premium to the then current market price.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 1: GENERAL (cont.)

In 2021, the Company secured through the issuance of subordinated notes, gross proceeds of \$12,000. For the consideration of \$12,000 in gross proceeds, SuperCom issued to a certain institutional investor in February 2021 and June 2021, two-year unsecured, subordinated promissory notes in the amounts of \$7,000 and \$5,000, respectively, both with similar structures and terms. Given the subordination agreement between the senior secured loan investor, the subordinated debt investor and the Company, the subordinated investor may request that the balance of the subordinated debt be paid only after the senior secured Fortress debt is paid in full. The notes have a 5% annual coupon and a built-in increase to the balance of the notes by 5% every 6 months for the first 24 months, for any portion of the notes which has not been paid down prior to maturity. All principal and interest accrued is required to be paid in only one-bullet payment at maturity, and the company has the right to pre-pay any portion of either note at any time without a pre-payment penalty. The company has an option at its discretion only, at any time after 12 months to pay down all or a portion of either note using its ordinary shares, subject to certain conditions being met.

During 2023, 2022 and 2021 the Company converted \$500, \$211 and \$7,601, respectively, of the remaining principal and accrued interest of subordinated notes into the Company's ordinary shares.

The outstanding principal and accrued interest of the Subordinated Debt was \$16,290.

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 the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates. As applicable to these financial statements, the most significant estimates and assumptions include (i) Revenue Recognition; (ii) Allowance for Doubtful Accounts; (iii) Deferred Income Taxes and (iv) measurement of the fair value of intangible assets and goodwill.

b. Financial statements in U.S. dollars:

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

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

c. Principles of consolidation:

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

d. Cash and cash equivalents:

The Company considers unrestricted short-term highly liquid investments originally purchased with maturities of three months or less to be cash equivalents. The Company has not held any cash equivalents during 2023 and 2022.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. Restricted Cash:

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

f. Allowance for credit losses:

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

g. Inventories:

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

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:

	<u>years</u>
Computers and peripheral equipment	3
Leased Products to Customers	5
Office furniture and equipment	5 - 17
Leasehold improvements	Over the shorter of the term of the lease or the life of the asset

i. Intangible assets:

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

Intangible assets and their useful lives are as follows:

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

As of December 31, 2023, 2022 and 2021 no impairment losses were identified.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

Acquisition-related intangible assets:

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

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

j. Goodwill:

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

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

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

For the years ended December 31, 2023 and 2022 the Company performed an annual impairment analysis and no impairment losses have been identified.

k. Impairment of long-lived assets and intangible assets with definite useful life:

The Company's long-lived assets and intangible assets with definite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

l. Long lived assets held for sale:

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

Under management decision, the patents acquired under Alvarion Ltd. and Safend Ltd. acquisitions during 2016, were not intended for internal use by the Company. Management entered into engagements with several brokers for the purpose of marketing and sale of those patents.

The Company classifies an asset group (an "asset") as held for sale in the period during which (i) the Company has approved and committed to a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and other actions required to sell the asset have been initiated, (iv) the sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale within one year, (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be abandoned.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Company initially and subsequently measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in operating loss for the period in which the held for sale criteria are met.

Upon designation as an asset held for sale, the Company stops recording depreciation or amortization expense on the asset. The Company assesses the fair value of assets held for sale less any costs to sell at each reporting period until the asset is no longer classified as held for sale. Realization costs of the patents are immaterial.

For the years ended December 31, 2023 and 2022 the Company did not identify any triggers for impairment

m. Accrued severance pay and severance pay fund:

The liabilities of the Company for severance pay of its Israeli employees are calculated pursuant to Israel's Severance Pay Law. Employees are entitled to one month's salary for each year of employment, or portion thereof. The Company's liability for all its employees is presented under "accrued severance pay". The Company deposits on a monthly basis to defined contribution plans.

A defined contribution plan is a program that benefits an employee after termination of employment, under which the Company regularly makes fixed payments to a fund administered by a separate and independent entity so that the Company has no legal or constructive obligation to pay additional contributions if such fund does not contain sufficient assets to pay all employees the benefits to which they may be entitled relating to employee service in the current and prior periods. The fund assets are not included in the Company's consolidated balance sheets.

n. Revenue recognition:

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

The Company recognize revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expect to receive in exchange for those goods or services.

The Company measures revenue based upon the consideration specified in the client arrangement, and revenue is recognized when the performance obligations in the client arrangement are satisfied. A performance obligation is a promise in a contract to transfer a distinct service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as, the customer receives the benefit of the performance obligation. Under ASC 606, revenue is recognized when a customer obtains control of promised services in an amount that reflects the consideration the Company expect to receive in exchange for those services. To achieve this core principle, the Company applies the following five steps:

1) *Identify the contract with a customer*

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

2) *Identify the performance obligations in the contract*

Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised services, the Company must apply judgment to determine whether promised services are capable of being distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation.

3) *Determine the transaction price*

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer.

The Company evaluates whether a significant financing component exists when the Company recognizes revenue in advance of customer payments that occur over time. For example, some of the Company contracts include payment terms greater than one year from when we transfer control of goods and services to the Company customers and the receipt of the final payment for those goods and services. If a significant financing component exists, the Company classifies a portion of the transaction price as interest income, instead of recognizing all of the transaction price as revenue. The Company does not adjust the transaction price for the effects of financing if, at contract inception, the period between the transfer of control to a customer and final payment is expected to be one year or less.

4) *Allocate the transaction price to performance obligations in the contract*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. However, if a series of distinct services that are substantially the same qualifies as a single performance obligation in a contract with variable consideration, the Company must determine if the variable consideration is attributable to the entire contract or to a specific part of the contract. Contracts that contain multiple performance obligations require an allocation of the transaction price based on management's judgement.

5) *Recognize revenue when or as the Company satisfies a performance obligation*

The Company satisfies performance obligations either over time or at a point in time. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

Nature of goods and services

The following is a description of the Company's goods and services from which the Company generates revenue, as well as the nature, timing of satisfaction of performance obligations, and significant payment terms for each, as applicable:

Software Maintenance and Support Services Revenue

Software maintenance and support services contracts are sold in conjunction with the Company's software products for its e-Gov, IoT and Connectivity, and Cyber Security revenue streams. The contract terms for software maintenance and support span one to five years in length and provide customers with the rights to unspecified software product updates if and when available, online and telephone access to technical support personnel.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Company recognizes revenue from fixed-price service and maintenance contracts using the input method of accounting. Under the input method, revenue is recognized on the basis of an entity's efforts toward satisfying a performance obligation. The Company recognizes revenue from maintenance and support services provided pursuant to the time elapsed under such contracts, as that is when the performance obligation to the Company customers under such arrangements is fulfilled.

Perpetual Software License Revenue

The Company generates revenue from the sales of perpetual software licenses for its Cyber Security and e-Gov segments, including sales for its Magna_DL, Magna_VL, Magna_Passport, and Magna_ID software products. The intellectual property rights for usage of these products are transferred to the customer at the time of purchase and the software does not require implementation services, ongoing maintenance and support, or other adaptations in order to maintain utility.

In arrangements where ongoing services are not essential to the functionality of the delivered software, the Company recognizes perpetual software license revenue when the license agreement has been approved and the software has been delivered. The Company can identify each party's rights, payment terms, and commercial substance of the content. Where applicable, the Company identifies multiple performance obligations and record as revenue as the performance obligations are fulfilled based on the adjusted market assessment approach.

Annual Software License Revenue

The Company generates revenue from the sales of time-based software licenses for certain of its software products. The intellectual property rights for access to these products are transferred to the customer for contract terms of one year and the software requires ongoing maintenance, support, or other adaptations in order to maintain utility.

The Company recognizes revenue over time using the input method for its annual software licenses when ongoing services are determined to be essential to the functionality of the delivered software. The license along with the any customization services are transferred to the Company customers pursuant to the time elapsed under such contracts, as that is when the Company performance obligation to its customers under such arrangements is fulfilled.

System Design Revenue

System design revenue relate to services provided to governments and national agencies in the early stages of a new project including incumbent system data information extraction, customer interviewing and specification mapping, architecture and software design, secure credential design, project management and planning, data migration design, project operation planning, training, assimilation, and operational processes optimization for the Company's e-Gov and IoT solutions.

The Company recognizes revenue from its system design services using the input method of accounting. Under the input method, revenue is recognized on the basis of an entity's efforts or inputs toward satisfying a performance obligation. The Company recognizes revenue from system design services provided pursuant to time-and-materials based contracts as the services are performed, as that is when the Company performance obligation to its customers under such arrangements is fulfilled. Where applicable, the Company identifies multiple performance obligations and record as revenue as the performance obligations are fulfilled based on the using the expected cost plus a margin approach.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

Implementation and System Deployment Revenue

Implementation and system deployment revenue relate to services provided to governments and national agencies typically after the design stage is concluded including infrastructure setup and deployment, software and chip design development, software customizations, purchase, and deployment of hardware and necessary system components, system integration and implementation, process engineering, customer training, system quality assurance testing, load balancing and local environment optimizations, and operational system launch for the Company's e-Gov and IoT solutions.

The Company recognizes revenue from its implementation and system deployment revenue using the input method of accounting. Under the input method, revenue is recognized on the basis of an entity's efforts or inputs toward satisfying a performance obligation. The Company recognizes revenue from implementation and system deployment services provided pursuant to time-and-materials based contracts as the services are performed, as that is when the Company performance obligation to its customers under such arrangements is fulfilled. Where applicable, the Company identifies multiple performance obligations and record as revenue as the performance obligations are fulfilled based on the using the residual approach.

Procurement of Secure Document Consumables Revenue

The Company procures secure document consumables for its e-Gov government customers which are needed to issue secure documents after a project deployment is complete and a system is actively running and operational. These consumables are manufactured generally at secure printing facilities utilizing proprietary and customized designs, which the Company has developed during the project design stage, to provide multiple layers of security preventing falsification of documents. These consumables include base card stock, security laminates, holograms, passive RFID chip inlays, passport booklets, secure chip cards, and various other secure credentialing necessities.

The Company recognizes revenue on procurement of secure document consumables products when the customer has control of the product, which is determined to be at the point in time when the products are delivered. Where applicable, the Company identifies multiple performance obligations and record as revenue as the performance obligations are fulfilled based on their stated prices within the contract.

Wireless & RFID Products Revenue

The Company's wireless products include solutions for carrier wi-fi, enterprise connectivity, smart city, smart hospitality, connected campuses and connected events which enhance productivity and performance. The Company's RFID products include asset tags which provide real-time asset loss prevention, inventory management, and personnel/asset tracking and vehicle tags which provide long-range vehicle ID for parking and fleet management, access control, asset loss prevention at airports, gated communities, truck and bus terminals, employee parking lots, hospitals, industrial facilities, railroads, mines and military installations.

The Company recognizes revenue on wireless and RFID products when the customer has control of the equipment, which is determined to be at the point in time when the products are shipped. Where applicable, the Company identifies multiple performance obligations and record as revenue as the performance obligations are fulfilled based on their stated prices within the contract.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

Electronic Monitoring Services Revenue

Electronic monitoring services represent fees the Company collects through the sale or rental of its PureSecurity Suite of products, which include the PureMonitor, PureTrack, PureTag, PureCom, PureBeacon, and SCRAM devices. These devices identify, track, and monitor people or objects in real time through the Company's GPS monitoring, home monitoring, and alcohol tracking solutions.

The Company recognizes revenue on the sale of electronic monitoring products when the customer has control of the equipment, which is determined to be at the point in time when the products are shipped. For devices which are rented and for electronic monitoring services provided, the Company recognizes revenue pursuant to the time elapsed for such contracts, as that is when the Company performance obligation to its customers under such arrangements is fulfilled. The Company customers typically pay for these services based on a net rate per day per individual or on a fixed monthly rate.

Treatment Services Revenue

Treatment services revenue is an extension of the Company's electronic monitoring services. The Company provides individuals who have completed or are near the end of their sentence with the resources necessary to productively transition back into society. Through the Company daily reporting centers, we provide criminal justice programs and reentry services to help reduce recidivism which include case management, substance abuse education, vocational training, parental support, employment readiness and job placement. These activities are considered to be a bundle of services which are a part of a series of distinct services recognized over time.

The Company recognizes revenue from its treatment services using the input method of accounting. Under the input method, revenue is recognized revenue on the basis of an entity's efforts or inputs toward satisfying a performance obligation. The Company recognizes revenue from implementation and system deployment services provided pursuant to time-and-materials based contracts as the services are performed, as that is when the Company performance obligation to its customers under such arrangements is fulfilled. Where applicable, the Company identify multiple performance obligations and record as revenue as the performance obligations are fulfilled based on the using the expected cost plus a margin approach.

Professional Services Revenue

The Company offers professional services for the Company's Cyber Security software products, which includes an on-site / remote visit by a specialist technician to assist with installation, deployment and configuration.

The Company recognizes revenue from professional services upon completion of the service performed for the customer. As these services are completed during a single onsite visit, revenue is recognized at a point in time of such onsite visit.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

Disaggregation of revenue

In the following table, revenue is disaggregated by major geographic region and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the reportable segments:

	Year ended December 31, 2023			
	Cyber Security	IoT	e-Gov	Total
Major geographic areas				
Africa	\$ -	\$ -	\$ 1,455	\$ 1,455
European countries	328	17,256	89	17,673
South America	12	-	-	12
United States	279	6,487	-	6,766
Israel	562	23	-	585
APAC	79	-	-	79
Total revenue	<u>\$ 1,260</u>	<u>\$ 23,766</u>	<u>\$ 1,544</u>	<u>\$ 26,570</u>
Timing of revenue recognition				
Products and services transferred over time	\$ 343	\$ 8,262	\$ 1,455	\$ 10,060
Products transferred at a point in time	917	15,504	89	16,510
Total revenue	<u>\$ 1,260</u>	<u>\$ 23,766</u>	<u>\$ 1,544</u>	<u>\$ 26,570</u>
	Year ended December 31, 2022			
	Cyber Security	IoT	e-Gov	Total
Major geographic areas				
Africa	\$ -	\$ -	\$ 374	\$ 374
European countries	273	9,023	263	9,559
South America	-	-	-	-
United States	351	6,526	-	6,877
Israel	614	79	-	693
APAC	146	-	-	146
Total revenue	<u>\$ 1,384</u>	<u>\$ 15,628</u>	<u>\$ 637</u>	<u>\$ 17,649</u>
Timing of revenue recognition				
Products and services transferred over time	\$ 498	\$ 11,697	\$ 335	\$ 12,530
Products transferred at a point in time	886	3,931	302	5,119
Total revenue	<u>\$ 1,384</u>	<u>\$ 15,628</u>	<u>\$ 637</u>	<u>\$ 17,649</u>
	Year ended December 31, 2021			
	Cyber Security	IoT	e-Gov	Total
Major geographic areas				
Africa	\$ -	\$ -	\$ 1,586	\$ 1,586
European countries	527	2,242	143	2,912
South America	1	36	-	37
United States	410	6,410	-	6,820
Israel	648	109	-	757
APAC	48	107	-	155
Total revenue	<u>\$ 1,634</u>	<u>\$ 8,904</u>	<u>\$ 1,729</u>	<u>\$ 12,267</u>
Timing of revenue recognition				
Products and services transferred over time	\$ 44	\$ 7,176	\$ 1,428	\$ 8,648
Products transferred at a point in time	1,590	1,728	301	3,619
Total revenue	<u>\$ 1,634</u>	<u>\$ 8,904</u>	<u>\$ 1,729</u>	<u>\$ 12,267</u>

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

Transaction price allocated to the remaining performance obligations

Remaining performance obligations represent the transaction price of system deployment, service and maintenance contracts for which work has not been performed as of the period end date. As of December 31, 2023, the aggregate amount of the transaction price allocated to remaining performance totals \$19.56 million. The Company expects approximately 68% of remaining performance obligations to be recognized into revenue within the next 12 months, with the remaining 32% recognized thereafter.

The Company applies the practical expedient in paragraph ASC 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one-year or less. We apply the transition practical expedient in paragraph ASC 606-10-65-1(f)(3) and do not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Company expects to recognize that amount as revenue. Additionally, applying the practical expedient in paragraph ASC 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts (i.e., commissions) as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one-year or less.

o. Research and development costs and software development costs:

Research and development costs are expensed as incurred. Software development costs eligible for capitalization are accounted for in accordance with 985-20 Software - Costs of Software to be Sold, Leased or Marketed. Capitalization of software development costs for products to be sold to third parties begins upon the establishment of technological feasibility and ceases when the product is available for general release. Amortization is calculated and provided over the estimated economic life of the software, using the greater of (i) straight-line method or if applicable (ii) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product. Amortization commences when developed software is available for general release to clients.

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

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 2023 and 2022 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 customers located primarily in Europe, Africa, the United States and South America. The Company performs ongoing credit evaluations of its customers' financial condition. The allowance for doubtful accounts is determined with respect to specific debts that the Company has determined to be doubtful of collection.

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

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

r. Concentrations of suppliers:

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

s. Basic and diluted earnings per share:

Basic earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year, plus the dilutive potential of stock options and warrants outstanding during the year using the treasury stock method. The numbers of potential shares from the conversion of options and warrants that have been excluded from the calculation were 10.575 million and 1.713 million for the years ended December 31, 2023 and 2022, respectively

t. Fair value of financial instruments:

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

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

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

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

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

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

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

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

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

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

u. Accounting for stock-based compensation:

The Company accounts for stock-based compensation arrangements using a fair value method which requires the recognition of compensation expenses for costs related to all stock-based payments including stock options. The fair value method requires the Company to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model to estimate the fair value of options granted that are expensed on a straight-line basis over the requisite service period, which is generally the vesting period. The Company accounts for forfeitures as they occur. Option valuation models, including the Black-Scholes option-pricing model, require the input of several assumptions. Changes in the assumptions used can materially affect the grant-date fair value of an award. These assumptions include the risk-free interest rate, expected dividend yield, expected volatility and the expected life of the award.

v. Treasury Shares:

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

w. Leases:

The Company adopted ASU 2016-02, Leases ("Topic 842" or "ASC 842") on January 1, 2022, using the modified retrospective approach, by applying the new standard to all leases existing at the date of initial application. The standard requires lessees to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability and requires leases to be classified as either an operating or a finance type lease. The standard excludes leases of intangible assets or inventory. Leases with a term of 12 months or less can be accounted for in a manner similar to the accounting for operating leases under ASC 840. The ASC 842 requires lessors to account for leases using an approach that is substantially equivalent to ASC 840 for sales-type leases, direct financing leases and operating leases.

The Company leases real estate and storage areas, which are all classified as operating leases. In addition to rent payments, the leases may require the Company to pay for insurance, maintenance, and other operating expenses.

The Company determines if an arrangement is a lease at inception. Lease classification is governed by five criteria in ASC 842-10-25-2. If any of these five criteria is met, the Company classifies the lease as a finance lease. Otherwise, the Company classifies the lease as an operating lease.

Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of the lease payments.

Operating lease expenses are recognized on a straight-line basis over the lease term. Exchange rate differences related to lease liabilities are recognized as finance income or expense. Several of the Company's leases include options to extend the lease. For purposes of calculating lease liabilities, lease terms include options to extend the lease when it is reasonably certain that the Company will exercise such options.

The Company's ROU assets are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment" ("ASC 360"), whenever events in circumstances indicate that the carrying amount of an asset may not be recoverable.

The ASC 842 provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all leases with a term shorter than 12 months. This means that for those leases, the Company does not recognize ROU assets or lease liabilities but recognizes lease expenses over the lease term on a straight-line basis. See Note 9 for further information on leases.

Upon adoption as of January 1, 2021, the Company recorded right-of-use leased assets and corresponding liabilities of \$1200. See Note 8 for further information on leases.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

x. Allocation of proceeds and related issuance costs:

When multiple instruments are issued in a single transaction (package issuance), the total net proceeds from the transaction are allocated among the individual freestanding instruments identified. The allocation occurs after identifying all the freestanding instruments and the subsequent measurement basis for those instruments.

Financial instruments that are required to be subsequently measured at fair value (i.e. derivative warrants liability and derivative liability related to bifurcated embedded conversion feature) are measured at fair value and the remaining consideration is allocated to other financial instruments that are not required to be subsequently measured at fair value (i.e. certain convertible bridge loans, warrants eligible for equity classification) and common stock, based on the relative fair value basis for such instruments.

The allocation of issuance costs to freestanding instruments was based on an approach that is consistent with the allocation of the proceeds, as described above.

Issuance costs allocated to the derivative warrant liabilities were immediately expensed, as discussed above. Issuance costs allocated to warrants stock classified as equity component were recorded as a reduction of additional paid-in capital.

y. Stock Warrants

Certain warrants that were granted by the Company to investors are classified as a component of permanent equity since they are freestanding financial instruments that are legally detachable and separately exercisable, do not embody an obligation for the Company to repurchase its own shares, and permit the holders to receive a fixed number of shares of common stock upon exercise for a fixed exercise price and thus, are considered as indexed to the Company's own stock. In addition, the warrants must require physical settlement and may not provide any guarantee of value or return. Such warrants were initially recognized based on the allocation method described in Note 2x above as an increase to additional paid-in capital. When applicable, direct issuance expenses that were allocated to the above warrants were deducted from additional paid-in capital.

z. Derivative Warrants Liability:

The Company accounts for certain warrants to purchase Ordinary Shares in connection with certain transactions, held by investors, that include a fundamental transaction feature pursuant to which such warrants could be required to be settled in cash upon certain events, as current liability according to the provisions of ASC 815-40, "Derivatives and Hedging - Contracts in Entity's Own Equity" ("ASC 815-40").

The Company accounted for these warrants as a financial liability measured upon initial recognition and on subsequent periods at fair value by using the Black-Scholes Option Pricing Model. Certain warrants that were granted by the Company in connection with certain transactions (see also Notes 10&14) entitle the investors to exercise the warrants for a variable number of shares and/or for a variable exercise price, accordingly, the warrants were classified as a current liability according to the provisions of ASC 815-40, "Derivatives and Hedging - Contracts in Entity's Own Equity" ("ASC 815-40"). The Company accounted for these warrants as a financial derivative liability measured upon initial recognition and on subsequent periods at fair value by using the Black-Scholes Option Pricing Model.

The fair value of the aforesaid warrants derivative liability is estimated using the Black-Scholes Model which requires inputs such as the expected term of the warrants, share price volatility and risk-free interest rate. These assumptions are reviewed on a regular basis and changes in the estimated fair value of the outstanding warrants are recognized each reporting period as part of in the "Financing (income) expenses, net" line in operations in the accompanying consolidated statement of net loss, until such warrants are exercised or expired. When applicable, direct issuance expenses that were allocated to the above warrants were expensed as incurred.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

aa. Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation. Such reclassifications did not have any significant impact on the Company's equity, net loss or cash flows.

bb. Forgivable Loans Received Under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") Paycheck Protection Program (the "PPP")

On February 26, 2021, the Company received a loan pursuant to the PPP, which was established under the "CARES Act", as administered by the U.S. Small Business Administration (the "SBA"). The loan, in the principal amount of \$723 (the "PPP Loan") was disbursed pursuant to a promissory note issued by the Company (the "Promissory Note"). Pursuant to the CARES Act and the PPP, all or a portion of the principal amount of the PPP Loan is subject to forgiveness under certain conditions. The Company used the proceeds of the PPP Loan in a manner that qualified for forgiveness of the PPP Loan, accordingly the Company accounted for the PPP Loan as a government grant and presented the income as a reduction of the related payroll expenses in the year ended December 31, 2021 as follows: \$60 in cost of revenues, \$126 in selling and marketing expenses and \$537 in general and administrative expenses.

cc. Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") which replaces the current incurred loss methodology with an expected loss methodology which is referred to as the current expected credit loss ("CECL") methodology. The measurement of credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans receivables and trade accounts receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures *not* accounted for as insurance (loan commitments, standby letters of credit, financial guarantees and other similar instruments) and net investment in leases recognized by a lessor in accordance with Accounting Standards Codification ("ASC") Topic 842 – Leases. ASU 2016-13 also made changes to the accounting for available-for-sale debt securities and requires credit losses to be presented as an allowance rather than as a write-down on such securities management does not intend to sell or believes that it is more likely than not they will be required to sell. The adoption of ASU 2016-13 on January 1, 2023 did not have a material impact on the Company's consolidated financial statements and disclosures.

In August 2020, the FASB issued ASU No. 2020-06, Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40); Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06"), which addresses issues identified as a result of the complexities associated with applying U.S. GAAP for certain financial instruments with characteristics of liabilities and equity. This update addresses, among other things, the number of accounting models for convertible debt instruments and convertible preferred stock, targeted improvements to the disclosures for convertible instruments and earnings-per-share ("EPS") guidance and amendments to the guidance for the derivatives scope exception for contracts in an entity's own equity, as well as the related EPS guidance. This update applies to all entities that issue convertible instruments and/or contracts in an entity's own equity. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. FASB specified that an entity should adopt the guidance as of the beginning of its annual fiscal year. The adoption of ASU 2020-06 on January 1, 2022 did not have a material impact on the Company's consolidated financial statements and disclosures.

In May 2021, the FASB issued ASU No. 2021-04, Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging- Contracts in Entity's Own Equity (Subtopic 815-40); Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options, a consensus of the FASB Emerging Issues Task Force ("ASU 2021-04"), which aims to clarify and reduce diversity in issuer's accounting for modifications or exchanges of freestanding equity-classified written call options that remain equity classified after modification or exchange. This update applies to all entities that issue freestanding written call options that are classified in equity. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. FASB specified that an entity should adopt the guidance as of the beginning of its annual fiscal year. The adoption of ASU 2021-04 on January 1, 2022 did not have a material impact on the Company's consolidated financial statements and disclosures.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont.)

dd. Recently Issued Accounting Standards Not Yet Effective

On December 14, 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2023-09, “*Improvements to Income Tax Disclosures*”, which requires disclosure of disaggregated income taxes paid, prescribes standard categories for the components of the effective tax rate reconciliation, and modifies other income tax-related disclosures. This ASU will be effective for the Company’s annual report for fiscal year 2026 and allows adoption on a prospective basis, with a retrospective option. This

ASU will only have an impact on the Company’s income tax disclosures. The Company is currently evaluating the impact of the adoption on its consolidated financial statements.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280), “*Improvements to Reportable Segment Disclosures*,” which enhances the disclosures required for operating segments in the annual and interim consolidated financial statements. This ASU will be effective for the Company’s annual report for fiscal year 2025 and for interim period reporting beginning in fiscal year 2026 on a retrospective basis with early adoption permitted. The Company is currently evaluating the impact of the adoption on its consolidated financial statements.

Other new pronouncements issued but not effective as of December 31, 2023 are not expected to have a material impact on the Company’s consolidated financial statements.

NOTE 3: OTHER CURRENT ASSETS

	December 31,	
	2023	2022
Prepaid expenses	\$ 133	\$ 224
Advances to suppliers	337	337
Government institutions	479	740
Guaranty held by customer	662	621
Other	131	317
	\$ 1,742	\$ 2,239

NOTE 4: INVENTORIES, NET

	December 31,	
	2023	2022
Raw materials, parts and supplies	\$ 1,380	\$ 1,726
Finished products	1,123	1,685
	\$ 2,503	\$ 3,411

As of December 31, 2023 and 2022, inventory is presented net of write offs for slow inventory in the amount of approximately \$2,395 and \$2,215, respectively.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 5: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2023	2022
Cost:		
Computers and peripheral equipment	\$ 3,390	\$ 3,206
Office furniture and equipment	852	852
Trade Equipment	42	42
Leasehold improvements	210	210
Equipment held by customer	4,420	2,890
	<u>8,914</u>	<u>7,200</u>
Accumulated depreciation:		
Computers and peripheral equipment	2,990	2,855
Office furniture and equipment	785	760
Trade Equipment	42	39
Leasehold improvements	206	198
Equipment held by customer	2,190	1,708
	<u>6,213</u>	<u>5,560</u>
Depreciated cost	<u>\$ 2,701</u>	<u>\$ 1,640</u>

Purchasing of Equipment for the years ended December 31, 2023 and 2022, were \$1,714 and \$524, respectively.

Depreciation expenses for the years ended December 31, 2023 and 2022, were \$653 and \$688, respectively.

NOTE 6: INTANGIBLE ASSETS, NET

Other intangible assets consisted of the following:

	December 31, 2023			December 31, 2022		
	Carrying Amount	Accumulated Amortization	Net Book Value	Carrying Amount	Accumulated Amortization	Net Book Value
Customers relationships & Other	\$ 8,734	\$ 8,427	\$ 307	\$ 8,734	\$ 8,112	\$ 622
IP & Technology	7,019	5,252	1,767	7,019	4,898	2,121
Capitalized software development costs	11,266	7,764	3,502	9,614	6,740	2,874
	<u>\$ 27,019</u>	<u>\$ 21,443</u>	<u>\$ 5,576</u>	<u>\$ 25,367</u>	<u>\$ 19,750</u>	<u>\$ 5,617</u>

Amortization expenses amounted to \$1,693, 1,607 and \$1396 for the years ended December 31, 2023, 2022 and 2021, respectively.

NOTE 7: OTHER LONG-TERM ASSETS, NET

	December 31,	
	2023	2022
Severance pay funds	\$ -	\$ 482
Deferred tax long term	501	501
Operating lease right-of-use asset	487	484
	<u>\$ 988</u>	<u>\$ 1,467</u>

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 8: ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2023	2022
Accrued management services	\$ 86	\$ 86
Professional services	207	202
Other accrued expenses	192	181
	\$ 485	\$ 469

NOTE 9: LEASES

We do not own any real estate. We lease approximately 1,139 square meters of office and warehousing premises in Tel Aviv and Herzliya, Israel, under a new lease which started on April 11, 2021 and expires on March 30, 2026. According to the lease agreements, the monthly fee is approximately \$35.

We lease approximately 1,701 square meters of office premises in California, Kentucky and Miami for our U.S. subsidiaries, which under the current lease contracts expire gradually by 2025, with a monthly fee of approximately \$27 for 2023.

	Year ended December 31,	
	2023	2022
The components of lease expense were as follows:		
Operating leases expenses	\$ 701	\$ 475
Cash flow information related to operating leases:		
Cash used in operating activities	\$ 694	\$ 502
Non-cash activity - Right of use assets obtained in exchange for new operating lease liabilities	\$ 652	\$ -

	December 31,	
	2023	2022
Supplemental information related to operating leases, including location of amounts reported in the accompanying consolidated balance sheets, follows:		
Other assets - Right-of-Use assets	\$ 1,824	\$ 1,200
Accumulated amortization	1,337	716
Operating lease Right-of-Use assets, net	\$ 487	\$ 484
Lease liabilities – current - accrued expenses and other liabilities	\$ 401	\$ 381
Lease liabilities – noncurrent	108	108
Total operating lease liabilities	\$ 509	\$ 489
Weighted average remaining lease term in years	2.25	
Weighted average annual discount rate	9%	

Future minimum lease commitments under non-cancelable operating leases for the years ended December 31, 2023, are as follows:

2024	437
2025	110
Total operating lease payments	547
Less: imputed interest	(38)
Present value of lease Liabilities	\$ 509

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 10: WARRANTS LIABILITY

	December 31,	
	2023	2022
Issued to investors		
Outstanding at January 1	\$ -	\$ -
Issued to investors	3,786	-
Exercised	(1,473)	-
Changes in fair value	(2,313)	-
Outstanding at December 31	<u>\$ -</u>	<u>\$ -</u>

See note 14 for additional information.

NOTE 11: OTHER LONG-TERM LIABILITIES

	December 31,	
	2023	2022
Deferred revenues	\$ 305	\$ 269
Deferred tax liability	170	170
Accrued severance pay	-	523
Long- term operating lease liabilities	108	108
	<u>\$ 583</u>	<u>\$ 1,070</u>

NOTE 12: COMMITMENTS AND CONTINGENT LIABILITIES

- a. Guarantees, indemnity and liens:
1. The Company and its subsidiaries issued bank guaranties in the total amount of approximately \$350 as a part of the ongoing terms of lease contracts, contracts with existing customers and for tenders.
 2. Under the Fortress Agreement, the Company recorded a fix floating charge on all of the Company's assets in favor of the Fortress, limited in amount, in order to secure long-term loan granted by them in favor of the Company.
- b. The Company is party to legal proceedings in the normal course of our business. There are no material pending legal proceedings to which the Company is a party or of which our property is subject. Although the outcome of claims and lawsuits against the Company cannot be accurately predicted, we do not believe that any of the claims and lawsuits, will have a material adverse effect on the Company business, financial condition, results of operations or cash flows for any quarterly or annual period.
- c. On January 19, 2024, pursuant to an agreement with Sabby to fully settle the actions between the parties, which were pending in the Supreme Court of New York, New York County, the Company issued to Sabby Volatility Warrant Master Fund, Ltd. ("Sabby") 1,475,142 of the Company's ordinary shares (the "Shares"), par value NIS 2.5 per share (the "Ordinary Shares"), 4,250,000 two-year warrants to purchase Ordinary Shares with an exercise price of \$0.45 per share (the "Warrants"), and 5,524,858 pre-funded warrants to purchase Ordinary Shares with an exercise price of \$0.00001 per share (the "Pre-Funded Warrants" and collectively with the Shares).

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 13: INCOME TAX

- a. The Corporate tax rate in Israel in 2023 and 2022 was 23%.
- b. Our USA subsidiaries were subject to federal tax rate of 21% in 2023 and 2022, state tax of 8.84% in CA and 6.5% in NY, and city tax of 6.5% in New York City
- 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,	
	2023	2022
Operating loss carry forwards	\$ 24,106	\$ 21,362
Reserves and allowances	4,939	4,475
Net deferred tax assets before valuation allowance	29,045	25,837
Valuation allowance	(28,622)	(25,414)
Net deferred tax assets	<u>423</u>	<u>423</u>
Deferred income taxes consist of the following:		
Domestic	21,234	20,867
Valuation allowance	(20,811)	(20,444)
Net deferred tax assets	<u>423</u>	<u>423</u>
Foreign	7,811	4,970
Valuation allowance	(7,811)	(4,970)
	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2023, the Company and its subsidiaries, have provided a valuation allowance of \$24,106 in respect of deferred tax assets resulting from tax loss carryforwards and other temporary differences. Other tax loss carryforwards and temporary differences in the amount of \$423 were not provided with valuation allowance as the Company's management currently believes that these tax assets are more likely than not to be recovered.

- d. Carryforward tax losses:

As of December 31, 2023, SuperCom Ltd and its subsidiaries in Israel have accumulated losses for tax purposes of approximately \$74,569, which may be carried forward and offset against taxable income in the future for an indefinite period. SuperCom Ltd. also has a capital loss of approximately \$14,651, which may be carried forward and offset against capital gains for an indefinite period. Loss carryforwards in Israel are measured in NIS.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 13: INCOME TAX (cont.)

As of December 31, 2023, SuperCom's subsidiaries in the United States have estimated total available carryforward tax losses of approximately \$25,734. Utilization of the U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization. SuperCom Ltd has assessments which are considered as final until the tax year ended December 31, 2018. SuperCom's subsidiaries in the United States and Israel have not received final assessments since their incorporation.

- e. loss before income tax consists of the following:

	Year ended December 31,		
	2023	2022	2021
Domestic	\$ (1,880)	\$ (7,013)	(10,616)
Foreign	(2,142)	(743)	483
	<u>\$ (4,022)</u>	<u>\$ (7,756)</u>	<u>(10,133)</u>

Substantially, all tax expenses are as a result of changes in deferred taxes.

- f. Reconciliation of the theoretical tax benefit to the actual tax benefit:

A reconciliation of theoretical tax expense, assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and the actual tax expense (benefit), is as follows:

	Year ended December 31,		
	2023	2022	2021
Loss before income tax, as reported in the consolidated statements of operations	\$ (4,022)	\$ (7,756)	(10,133)
Statutory tax rate in Israel	23%	23%	23%
Theoretical tax benefit	(925)	(1,784)	(2,331)
Changes in valuation allowance	943	1185	1,438
Changes in foreign currency exchange rate and other differences	576	481	788
Non-deductible expenses and other differences	(594)	(181)	(110)
Actual income tax expense (benefit)	<u>\$ -</u>	<u>\$ (299)</u>	<u>5</u>

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 14: SHARE CAPITAL

- a. The Company's ordinary shares are quoted under the symbol "SPCB" on the NASDAQ Capital Market in the United States.
- b. Shareholders' rights:

The ordinary shares confer upon the holders the right to receive notice to participate and vote in the general meetings of the Company, and the right to receive dividends, if declared.

- c. On March 30, 2023, the Company raised approximately \$2.4 million in gross proceeds in a registered direct offering with a single accredited institutional investor through the sale of an aggregate of 485,000 of its ordinary shares, and 1,032,615 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent private placement to such Purchaser of the Company's private warrants to purchase an aggregate of 1,517,615 of its ordinary shares at an exercise price of \$1.66 per share.

On June 06, 2023, 440,615 prefunded warrants were converted into 440,615 ordinary shares.

On July 28, 2023, 435,000 prefunded warrants were converted into 435,000 ordinary shares.

On August 3, 2023 the exercise price of the Company's private warrants was reduced to \$0.85.

On August 1, 2023, 157,000 prefunded warrants were converted into 157,000 ordinary shares.

The Company's private warrants issue on March 30, 2023, were classified as a financial liability because of the repurchase provisions of such warrants that permitted the holders of such warrants, in the event of a fundamental transaction, to receive a cash consideration that is not the same as the consideration payable to the common stockholders (see also Note 10).

The Company used the Black-Scholes valuation model to estimate fair value of these warrants. In using this model, the Company made certain assumptions about risk-free interest rates, dividend yields, expected stock price volatility, expected term of the warrants and other assumptions. Expected volatility was calculated based upon historical volatility of the Company. Risk-free interest rates are derived from the yield on U.S. Treasury debt securities. Dividend yields are based on historical dividend payments, which have been zero to date. The expected term of the warrants is based on the time to expiration of the warrants from the measurement date.

Issuance expenses totaled \$188, of which \$126 were allocated to the derivative warrant liabilities and were immediately expensed, and \$62 were allocated to the ordinary shares and to the prefunded warrants that were classified as equity and accordingly were reduced from additional paid-in capital.

The following table summarizes the observable inputs used in the valuation of the derivative warrant liabilities issued on March 30, 2023 on issuance date and on exercise date:

	<u>March 30,</u> <u>2023</u>	<u>November 15,</u> <u>2023</u>
Risk-free interest rate	3.60%	4.57%
Dividend yield	0%	0%
Volatility factor	100%	116%
Expected life of the options	5.00	4.38

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 14: SHARE CAPITAL (cont.)

- d. On August 3, 2023, the Company raised approximately \$2.75 million in gross proceeds in a registered direct offering with a single accredited institutional investor through the sale of an aggregate of 661,000 of its ordinary shares, and 2,574,295 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent private placement to such Purchaser of the Company's private warrants to purchase an aggregate of 3,235,295 of its ordinary shares at an exercise price of \$0.85 per share.

On September 15, 2023, 765,295 prefunded warrants were converted into 765,295 ordinary shares.

On October 10, 2023, 1,809,000 prefunded warrants were converted into 1,809,000 ordinary shares.

The Company's private warrants issue on August 3, 2023, were classified as a financial liability because of the repurchase provisions of such warrants that permitted the holders of such warrants, in the event of a fundamental transaction, to receive a cash consideration that is not the same as the consideration payable to the common stockholders (see also Note 10).

Issuance expenses totaled \$235, of which \$185 were allocated to the derivative warrant liabilities and were immediately expensed, and \$50 were allocated to the ordinary shares and to the prefunded warrants that were classified as equity and accordingly were reduced from additional paid-in capital.

The Company used the Black-Scholes valuation model to estimate fair value of these warrants.

The following table summarizes the observable inputs used in the valuation of the derivative warrant liabilities issued on August 3, 2023 on issuance date and on exercise date:

	<u>August 3,</u> <u>2023</u>	<u>November 15,</u> <u>2023</u>
Risk-free interest rate	4.30%	4.54%
Dividend yield	0%	0%
Volatility factor	98%	113%
Expected life of the options	5.00	4.72

- e. On November 15, 2023, the exercise price of all private warrants issued on March 30, 2023 and August 3, 2023, a total of 4,752,910 private warrants, was reduced to \$0.42. Subsequently all 4,752,910 private warrants were exercised into 1,081,000 ordinary shares and 3,671,910 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share.

Upon conversion of all 4,752,910 private warrants at \$0.42 by the holders, the holders were entitled to receive private warrants to purchase an aggregate of 9,505,820 of its ordinary shares (200% warrants) for 5.5 years at an exercise price of \$0.5.

The total consideration of approximately \$2.0 million in gross proceeds was classified to equity, accordingly \$177 of issuance expenses were allocated to equity and reduced from additional paid-in capital.

On November 20, 2023, 2,731,910 prefunded warrants, out of the 3,671,910 issued, were converted into 2,731,910 ordinary shares.

The remaining 940,000 prefunded warrants remained outstanding as of December 31, 2023.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 14: SHARE CAPITAL (cont.)

f. During 2023 the Company converted \$500 of the remaining principal and accrued interest of short-term loans issued in 2022 into 518,644 of the Company's ordinary shares.

g. 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. 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.

1 million Ordinary Shares are authorized for issuance under the 2003 Option Plan, of which 171,250 shares were available for future grant as of December 31, 2023.

In 2007 a new option plan was approved under which the Company may grant stock options to the U.S. employees of the Company and its subsidiaries (the "2007 Option Plan"). Under the 2007 Option Plan, the Company may grant both qualified (for preferential tax treatment) and non-qualified stock options. In June 2013, the Option Plan was extended for another period of ten years, until December 31, 2023.

In April 2023, the Option Plan was extended for another period of ten years, until December 31, 2033.

During the years 2019, 2020 and 2021, the Company did not grant any option to purchase shares.

During the year 2022, the Company granted 800,937 option to purchase ordinary shares to certain officers and employees of the Company.

During the year 2023, the Company granted 22,000 option to purchase ordinary shares to certain employees of the Company.

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

The estimated fair value of stock option awards was determined on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions during the periods indicated:

	Year ended December 31,	
	2023	2022
Weighted Average Risk-free interest rate	3.84%	2.84%
Dividend yield	0%	0%
Weighted Average Volatility factor	91%	74%
Weighted Average Expected life of the options	4.53	6.64

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 14: SHARE CAPITAL (cont.)

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.

The following table contains additional information concerning options granted under the existing stock-option plan:

	Year ended December 31					
	2023		2022		2021	
	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	811,050	\$ 3.58	21,388	\$ 12.3	33,484	\$ 23.1
Granted	22,000	\$ 1.23	800,937	\$ 3.25	-	-
Exercised	(250)	\$ 1.00	(1,650)	\$ 1.00	(4,496)	\$ 4.1
Canceled and forfeited	(10,625)	\$ 4.17	(9,625)	\$ 3.79	(7,600)	\$ 22.2
Outstanding at end of year	<u>822,175</u>	<u>\$ 3.51</u>	<u>811,050</u>	<u>\$ 3.58</u>	<u>21,388</u>	<u>\$ 12.3</u>
Exercisable at end of year	<u>416,975</u>	<u>\$ 3.80</u>	<u>213,597</u>	<u>\$ 4.15</u>	<u>15,950</u>	<u>\$ 12.8</u>

A summary of the Company's non-vested options granted to employees is presented below:

	Year ended December 31					
	2023		2022		2021	
	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	597,453	\$ 3.51	5,438	\$ 10.7	14,175	\$ 16.4
Granted	22,000	\$ 1.23	800,937	\$ 3.25	-	-
Vested	(204,978)	\$ 3.46	(199,297)	\$ 3.94	(5,437)	\$ 10.7
Canceled and forfeited	(9,275)	\$ 3.68	(9,625)	\$ 3.79	(3,300)	\$ 35.2
Non-vested as of December 31, 2023	<u>405,200</u>	<u>\$ 3.20</u>	<u>597,453</u>	<u>\$ 3.51</u>	<u>5,438</u>	<u>\$ 10.7</u>

As of December 31, 2023, there was \$539 of unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the stock option plans, to be recognized over a weighted average period of approximately 2.66 years.

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

	Year ended December 31,		
	2023	2022	2021
Cost of revenues	\$ 13	\$ 17	\$ 7
Research and development expenses	95	67	12
Selling and marketing expenses	7	7	7
General and administrative expenses	128	47	5
	<u>\$ 243</u>	<u>\$ 138</u>	<u>\$ 31</u>

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 14: SHARE CAPITAL (cont.)

The options outstanding and exercisable as of December 31, 2023, have been separated into ranges of exercise prices as follows:

Options outstanding				Options Exercisable			
Number outstanding	Weighted average remaining contractual life (years)	Exercise price	Aggregate intrinsic value	Number outstanding	Weighted average remaining contractual life (years)	Aggregate intrinsic value	
8,188	5.26	\$ 1.00	\$ -	8,188	5.26	\$ -	-
16,350	7.32	\$ 1.23	\$ -	2,700	6.55	\$ -	-
763,000	5.68	\$ 3.25	\$ -	373,500	5.66	\$ -	-
25,387	5.22	\$ 7.50	\$ -	23,337	5.16	\$ -	-
9,250	5.07	\$ 20.00	\$ -	9,250	5.07	\$ -	-
<u>822,175</u>			<u>\$ -</u>	<u>416,975</u>		<u>\$ -</u>	<u>-</u>

The total intrinsic value of options exercised for the years ended December 31, 2023 and 2022 was \$1 and \$7, respectively.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 14: SHARE CAPITAL (cont.)

h. Warrants:

Each of the Company's warrants entitles the holder to exercise such warrant for one ordinary share and does not confer upon such holder any rights as an ordinary shareholder until such holder exercises such holder's warrants and acquires the Ordinary Shares.

All Company warrants outstanding as of December 31, 2023 are classified as a component of shareholders' equity because such warrants are free standing financial instruments that are legally detachable, separately exercisable, do not embody an obligation for the Company to repurchase its own shares, and permit the holders to receive a fixed number of Ordinary Shares upon exercise, requires physical settlement and do not provide any guarantee of value or return.

The following table contains additional information concerning warrants activity for the years 2023 and 2022:

	Year ended December 31					
	2023		2022		2021	
	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	901,869	\$ 10.06	247,000	\$ 17.07	247,000	\$ 17.07
Issued	9,505,820	\$ 0.5	1,219,738	\$ 4.96	-	\$ -
Exercised	654,869	\$ 3.20	564,869	\$ 3.08	-	\$ -
Expired	-	\$ -	-	\$ -	-	\$ -
Outstanding at end of year	<u>9,752,830</u>	<u>\$ 0.91</u>	<u>901,869</u>	<u>\$ 10.06</u>	<u>247,000</u>	<u>\$ 17.07</u>

Set forth below is data regarding the range of exercise prices and expiration date for warrants outstanding at December 31, 2023:

Exercise Price	Number of warrants Outstanding	Exercisable until
\$ 18.70	2,500	2025
\$ 7.50	7,500	2026
\$ 17.07	237,000	2027
\$ 0.50	9,505,820	2029
	<u>9,752,820</u>	

i. 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.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15: RELATED PARTY TRANSACTIONS

- a. Mr. Trabelsi has served as the chief executive officer of the Company since June 1, 2012 until February 21, 2022. Mr. Trabelsi is the sole director of Sigma Wave, which is the controlling shareholder of the Company. On May 9, 2013, the general meeting of shareholders of the Company approved the payment of management fees to Mr. Trabelsi of \$10.6 per month plus social benefits and an annual bonus of the greater of 2% of the Company's annual net profit or 0.5% of annual revenues, but in no event greater than Mr. Trabelsi's annual salary.
- b. As of December 31, 2023 and 2022, the Company accrued \$86 and \$86, respectively as expenses arising from related party management services.
- c. On April 29, 2012, the Board of Directors approved the recording of a floating charge on all of the Company's assets in favor of the Mr. and Mrs. Trabelsi, unlimited in amount, in order to secure personal guarantees granted by them in favor of the Company to a bank and in order to secure loans that are given by them from time to time to the Company. As of December 31, 2023, total loans were \$100. These loans bear no interest and are not attached to any price index.

NOTE 16: SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION

- a. Summary information about segments:

ASC 280, Segment Reporting, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer.

The company operates in three technologies segments or Strategic business units; e-Gov, IoT, and Cyber Security:

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

IoT: The Company's IoT products and solutions reliably identify, track and monitor people or objects in real time, enabling the customers to detect unauthorized movement of people, vehicles and other monitored objects.

The Company provides all-in-one field proven IoT suite, accompanied with services specifically tailored to meet the requirements of an IoT solutions. The Company's proprietary IoT suite of hybrid hardware, connectivity and software components are the foundation of these solutions and services.

Cyber Security: The Company operates in the fields of cutting-edge endpoint data protection guarding against corporate data loss and theft through content discovery and inspection, encryption methodologies, and comprehensive device and port control and cyber security services.

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 16: SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

	Year ended December 31, 2023			
	Cyber Security	IoT	e-Gov	Total
Revenues	\$ 1,260	\$ 23,766	\$ 1,544	\$ 26,570
Operating Income (Loss)	524	(99)	(3,676)	(3,359)
Goodwill	1,075	2,229	3,722	7,026
Total Property and Equipment, net	\$ 8	\$ 2,519	\$ 174	\$ 2,701
	Year ended December 31, 2022			
	Cyber Security	IoT	e-Gov	Total
Revenues	\$ 1,384	\$ 15,628	\$ 637	\$ 17,649
Operating loss	680	(3,993)	(2,692)	(6,005)
Goodwill	1,075	2,229	3,722	7,026
Total Property and Equipment, net	\$ 30	\$ 1,590	\$ 50	\$ 1,640
	Year ended December 31, 2021			
	Cyber Security	IoT	e-Gov	Total
Revenues	\$ 1,634	\$ 8,904	\$ 1,729	\$ 12,267
Operating loss	400	(3,004)	(4,133)	(6,737)
Goodwill	1,075	2,229	3,722	7,026
Total Property and Equipment, net	\$ 47	\$ 1,543	\$ 214	\$ 1,804

Following is a reconciliation of the operating income (loss) of the reportable segments to the data included in the statements of operations:

	Year ended December 31,		
	2023	2022	2021
Operating loss			
Total operating loss of reportable segments	\$ (3,359)	\$ (6,005)	(6,737)
Financial expenses, net	(663)	(1,751)	(3,396)
Loss before income taxes	\$ (4,022)	\$ (7,756)	(10,133)

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 16: SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

b. Summary information about geographic areas:

The following is a summary of revenues from external customers of the continued operations within geographic areas and data regarding property and equipment, net:

	Year ended December 31,					
	2023		2022		2021	
	Total Revenues	Property and Equipment, net	Total revenues	Property and Equipment, net	Revenues	Property and Equipment, net
Africa	\$ 1,455	\$ -	\$ 374	\$ -	\$ 1,586	-
European countries	17,673	-	9,559	-	2,912	-
South America	12	-	-	-	37	-
United States	6,766	21	6,877	38	6,820	47
Israel	585	2,680	693	1,602	757	1,757
APAC	79	-	146	-	155	-
	<u>\$ 26,570</u>	<u>\$ 2,701</u>	<u>\$ 17,649</u>	<u>\$ 1,640</u>	<u>\$ 12,267</u>	<u>1,804</u>

- Revenues were attributed to countries based on the customer's location.

- Property and equipment were classified based on geographic areas in which such property and equipment items are held.

c. Summary of revenues from external customers based on products and services:

	Year ended December 31,		
	2023	2022	2021
Raw materials and equipment	\$ 2,841	\$ 302	1,119
Electronic monitoring	17,819	11,614	6,393
Treatment programs	4,538	3,998	3,292
Maintenance, royalties and project management	1,372	1,735	1,463
	<u>\$ 26,570</u>	<u>\$ 17,649</u>	<u>12,267</u>

d. Major customer data as a percentage of total sales:

	Year ended December 31,		
	2023	2022	2021
Customer A	50%	36%	-
Customer B	9%	-	10%
	<u>59%</u>	<u>36%</u>	<u>10%</u>

SUPERCOM LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except per share data)

NOTE 17: OTHER EXPENSE, NET

	Year ended December 31,		
	2023	2022	2021
Credit losses	\$ 1,457	\$ 1,000	\$ 3,000
Other	1,355	138	1,374
Total other expense, net	<u>\$ 2,812</u>	<u>\$ 1,138</u>	<u>\$ 4,374</u>

Credit losses provision.

The following is a summary of the accounts receivables allowance for credit losses for the years ended December 31:

	Year ended December 31,		
	2023	2022	2021
Balance at beginning of period	\$ 12,667	\$ 11,667	\$ 8,667
Provision during the period	1,457	1,000	3,000
Balance at end of period	<u>\$ 14,124</u>	<u>\$ 12,667</u>	<u>\$ 11,667</u>

NOTE 18: FINANCIAL EXPENSES, NET

	Year ended December 31,		
	2023	2022	2021
Interest, bank charges and fees	\$ (2,512)	\$ (1,770)	\$ (3,642)
Change in Fair value of derivative warrants liabilities	2,313	-	-
Exchange differences, net	(464)	19	246
Total financial expenses, net	<u>\$ (663)</u>	<u>\$ (1,751)</u>	<u>\$ (3,396)</u>

NOTE 19: SUBSEQUENT EVENTS.

On January 8, 2024, 940,000 prefunded warrants were converted into ordinary shares.

On January 19, 2024, the Company issued to Sabby Volatility Warrant Master Fund, Ltd. ("Sabby") 1,475,142 of the Company's ordinary shares (the "Shares"), par value NIS 2.5 per share (the "Ordinary Shares"), 4,250,000 two-year warrants to purchase Ordinary Shares with an exercise price of \$0.45 per share (the "Warrants"), and 5,524,858 pre-funded warrants to purchase Ordinary Shares with an exercise price of \$0.00001 per share (the "Pre-Funded Warrants" and collectively with the Shares, the Warrants and the Ordinary Shares underlying the Warrants and the Pre-Funded Warrants, the "Securities") pursuant to an agreement with Sabby to fully settle the actions between the parties, which were pending in the Supreme Court of New York, New York County.

On April 19, 2024, the Company raised approximately \$2.9 million in gross proceeds in a registered direct offering with a single accredited institutional investor through the sale of an aggregate of 2,873,885 of its ordinary shares, and 5,242,270 pre-funded warrants to purchase ordinary shares with an exercise price of \$0.00001 per share, and concurrent private placement to such Purchaser of the Company's private warrants to purchase an aggregate of 8,116,155 of its ordinary shares at an exercise price of \$0.38 per share.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SUPERCOM LTD.

By: /s/ Ordan Trabelsi
Name: Ordan Trabelsi
Title: Chief Executive Officer

Dated: August 14, 2024

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

I, Ordan Trabelsi, certify that:

1. I have reviewed this Annual Report on Form 20-F/A of SuperCom Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: August 14, 2024

/s/ Ordan Trabelsi
Ordan Trabelsi*
Chief Executive Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

CERTIFICATION OF ACTING CHIEF FINANCIAL OFFICER

Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

I, Arie Trabelsi, certify that:

1. I have reviewed this Annual Report on Form 20-F/A of SuperCom Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: August 14, 2024

/s/ Arie Trabelsi

Arie Trabelsi*

Acting Chief Financial Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SuperCom Ltd. (the "Company") on Form 20-F/A for the period ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ordan Trabelsi, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Ordan Trabelsi

Ordan Trabelsi*
Chief Executive Officer

Date: August 14, 2024

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

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

In connection with the Annual Report of SuperCom Ltd. (the "Company") on Form 20-F/A for the period ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arie Trabelsi, Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Arie Trabelsi

Arie Trabelsi*
Acting Chief Financial Officer

Date: August 14, 2024

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. [333-121231](#) and [333-175785](#)) and on Form F-3 (No. [333-261442](#)) of SuperCom Ltd. (the "Company") of our report dated April 22, 2024 relating to the Company's consolidated financial statements, which appears in this Form 20-F/A, except for the consolidated statements of operation and comprehensive loss, changes in stockholders' equity, and cash flows for the year ended December 31, 2021, and the related notes for the year ended December 31, 2021, as to which the date of our report is August 14, 2024.

Tel Aviv, Israel
August 14, 2024

/s/ Yarel + Partners

Certified Public Accountants
