

SUPERCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except share data

	Year ended December 31,			
	2003	2004	2005	2006
Revenues	\$ 7,244	\$ 7,344	\$ 8,462	\$ 8,795
Cost of revenues	3,102	3,730	4,293	3,494
Inventory write-off	-	-	287	-
Gross profit	<u>4,142</u>	<u>3,614</u>	<u>3,882</u>	<u>5,301</u>
Operating expenses:				
Research and development	918	845	1,182	1,362
Selling and marketing	3,026	2,445	3,003	5,619
General and administrative	1,829	1,955	2,968	2,737
Restructuring expenses	-	-	496	-
Litigation settlement expenses	-	-	129	108
Total operating expenses	<u>5,773</u>	<u>5,245</u>	<u>7,778</u>	<u>9,826</u>
Capital gain from the sale of the e-ID Division	-	-	-	10,536
Operating income (loss)	<u>(1,631)</u>	<u>(1,631)</u>	<u>(3,896)</u>	<u>6,011</u>
Financial expenses, net	(233)	(214)	(25)	(204)
Other expenses, net	<u>(83)</u>	<u>(27)</u>	<u>(30)</u>	<u>(367)</u>
Loss before income taxes	(1,947)	(1,872)	(3,951)	5,440
Impairment of investment in an affiliated company, net of taxes	<u>(48)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (1,995)</u>	<u>\$ (1,872)</u>	<u>\$ (3,951)</u>	<u>\$ 5,440</u>
Earnings (loss) per share:				
Basic earnings (loss) per share	<u>\$ (0.15)</u>	<u>\$ (0.13)</u>	<u>\$ (0.21)</u>	<u>\$ 0.23</u>
Diluted earnings (loss) per share	<u>\$ (0.15)</u>	<u>\$ (0.13)</u>	<u>\$ (0.21)</u>	<u>\$ 0.22</u>
Weighted average number of Ordinary shares used in computing basic earnings (loss) per share	<u>12,718,426</u>	<u>14,590,346</u>	<u>18,563,943</u>	<u>23,348,289</u>
Weighted average number of Ordinary shares used in computing diluted earnings (loss) per share	<u>12,718,426</u>	<u>14,590,346</u>	<u>18,563,943</u>	<u>24,781,103</u>

SUPERCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,			
	2003	2004	2005	2006
Cash flows from operating activities:				
Net Income (loss)	\$ (1,995)	\$ (1,872)	\$ (3,951)	\$ 5,440
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation and amortization	371	338	772	355
Accrued severance pay	74	128	52	128
Stock based compensation	26	9	55	361
Decline in market value below cost of marketable debt securities	52	7	-	-
Capital gain from the sale of the e-ID Division	-	-	-	(10,536)
Amortization of discount on convertible bonds	-	-	-	30
Amortization of deferred charges	-	-	-	6
Write down of loan regarding an investment in an affiliated company	-	-	-	275
Decrease (increase) in trade receivables	30	(398)	448	(1,442)
Decrease (increase) in other accounts receivable and prepaid expenses	(239)	(403)	517	254
Decrease (Increase) in inventories	(92)	814	(40)	212
Increase (decrease) in trade payables	450	(31)	(365)	53
Increase (decrease) in employees and payroll accruals	73	51	(35)	211
Increase (decrease) in accrued expenses and other liabilities	(912)	747	(407)	1,586
Loss on sale of property and equipment	5	1	-	8
Write-off of investment in an affiliate	48	-	-	-
Exchange differences on principle of long-term loan	2	-	-	12
Net cash used in operating activities	(2,107)	(609)	(2,954)	(3,047)
Cash flows from investing activities:				
Purchase of property and equipment	(85)	(1,087)	(315)	(93)
Increase in severance pay fund	(45)	(95)	(64)	(95)
Proceeds from restricted cash deposits, net	(1,044)	234	41	229
Proceeds from disposal of short term deposits, net	(697)	344	353	-
Proceeds from (investment in) marketable securities	440	110	(650)	650
Amounts carried to deferred charges	-	-	-	(163)
Cash paid in respect of sale of the e-ID Division	-	-	-	(52)
Acquisition of intangible assets	(70)	(37)	-	-
Net cash provided by (used in) investing activities	(1,501)	(531)	(635)	476
Cash flows from financing activities:				
Short-term bank credit, net	1,196	(1,122)	120	(307)
Proceeds from issuance of convertible bonds and warrants, net	-	-	-	3,139
Issuance of share capital through a private placement, net of issuance costs	-	3,517	2,539	(183)
Proceeds from exercise of options and warrants, net	-	84	422	92
Long-term loan received	250	400	500	204
Principal repayment of long-term loan	(410)	(574)	(592)	(224)
Net cash provided by financing activities	1,036	2,305	2,989	2,721
Increase (decrease) in cash and cash equivalents	(2,572)	1,165	(600)	150
Cash and cash equivalents at the beginning of the year	4,301	1,729	2,894	2,294
Cash and cash equivalents at the end of the year	\$ 1,729	\$ 2,894	\$ 2,294	\$ 2,444

SUPERCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

U.S. dollars in thousands

	Year ended December 31,			
	2003	2004	2005	2006
<u>Supplemental disclosure of cash flows information:</u>				
Cash paid in respect of sale of the e-ID Division				
Assets and Liabilities of the division, at the date of sale:				
Working Capital, net	-	-	-	2,073
Fixed assets, net	-	-	-	2,800
Intangible assets	-	-	-	47
Fair value of marketable securities received as proceeds, net	-	-	-	(15,508)
Capital gain from the sale of the e-ID Division	-	-	-	10,536
	-	-	-	(52)
Cash paid during the year for:				
Interest	\$ 135	\$ 128	\$ 87	\$ 76
<u>Supplemental disclosure of non-cash investing and financing activities:</u>				
Transfer of inventory to property and equipment	\$ -	\$ 1,117	\$ -	\$ -
Transfer of trade receivable to inventory	\$ -	\$ 860	\$ -	\$ -
Conversion of loan to ordinary shares	\$ -	\$ 25	\$ -	\$ -
Accrued issuance costs	\$ -	\$ 176	\$ 109	\$ 19
Issuance of warrants to service provider	\$ -	\$ -	\$ -	\$ 40
Receivables on account of shares	\$ 84	\$ -	\$ -	\$ -