

SuperCom Ltd.

(SPCBF^{5,8} \$2.39) Buy

Scott Greiper
212-389-8203
sgreiper@unterberg.com

SuperCom Signs \$2.5 Million Renewal for Hong Kong Passport Production

- SuperCom announced that it signed a 3-year renewal with China Travel Service (a local agent) to supply passports to the Hong Kong government. The agreement is for the supply of both technology and services for passport production and is valued at roughly \$2.5 million. We have already factored this contract in our model.
- In September 1996, SuperCom entered into a \$10 million, five-year agreement with China Travel Service to supply passports to the Hong Kong government. Numerous supplemental agreements have been signed since the start of the project. In September 2003, the parties signed a supplementary agreement through December 2004. The renewal represents the extension of this contract.
- SuperCom also supplies re-entry ID cards for the Hong Kong/China border. In 1996, SuperCom entered into a \$12 million, five-year contract, with a five year renewal option agreement, with China Travel Services Ltd. to supply Hong Kong-China re-entry cards to the Hong Kong government. The 5-year renewable option was executed, which extends the contract to 2006. The project includes capital equipment purchases and smart card production solutions.
- The renewal of this contract validates the Company's smart card/ID technology and its ability to produce IDs for large governments. The global opportunity for electronic IDs (passports, visas) is north of \$2 billion and SuperCom is an established player, with more than 10 years experience working with governments in Europe, Asia and the Middle East. As electronic ID initiatives roll across countries throughout the world, spurred on by the October 2005 deadline for e-passport compliance, we expect to see more announcements like this, and we reiterate our Buy rating on the stock.

Key Data

52-Week Range	\$2.75-\$0.90
Weighted Average Shares (MM)	18.0
Float (MM)	11.0
% Held Institutionally	NM
Market Capitalization (MM)	\$43.2
Average Daily Volume (000)	65.4
Revenues - LTM (MM)	\$7.4
Total Debt (MM)	\$1.8
Cash per Share	\$0.21
Long-Term Growth Rate	30%
12-Month Price Target	\$3.50

Fiscal Year Ends: Dec.	2004A	2005E	2006E
Revenue (MM)	\$7.4	\$16.9	\$21.7
Earnings per Share			
Q1	\$(0.06)	\$(0.03)	
Q2	\$(0.07)	\$(0.02)	
Q3	\$(0.04)	\$0.05	
Q4	<u>\$0.03A</u>	<u>\$0.11</u>	
Year	\$(0.12)	\$0.11	\$0.16
P/E	NM	21.7x	14.9x
FD Shares (MM)	17.5	19.3	21.8



SuperCom develops and markets advanced technologies and products for smart-card solutions and government e-ID projects. SuperCom offers a wide range of standard and customized smart card-based solutions for physical and logical security for universities, corrections facilities, airports and seaports. SuperCom is also a leader in the manufacturing of secure and durable documents such as national identity cards, passports, visas, drivers' licenses and vehicle registration. Together with its subsidiaries, SuperCom offers advanced, innovative and flexible solutions in contact and contactless smart-card technologies.

350 Madison Avenue
New York, NY 10017
212-389-8000
Fax: 212-389-8828

225 Franklin Street 26th Fl.
Boston, MA 02110
617-217-2106
Fax 617-217-2702

275 Middlefield Road 2nd Fl.
Menlo Park, CA 94024
650-289-4200

456 Montgomery Street 22nd Fl.
San Francisco, CA 94104
415-659-2222
Fax 415-399-1113

4 Shenkar Street
Hertzlia, 46120 Israel
+972 (9) 961-3000
Fax +972 (9) 961-3003

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Income Statement

SuperCom Ltd. Quarterly Earnings Model, 2002 - 2006

(dollars in thousands)																	
	2002A	Mar 1Q03	June 2Q03	Sep 3Q03	Dec 4Q03	2003A	Mar 1Q04	June 2Q04	Sep 3Q04	Dec 4Q04 E	2004E	Mar 1Q05 E	June 2Q05 E	Sep 3Q05 E	Dec 4Q05 E	2005E	2006E
Revenues																	
Europe	4,294	2,259	575	546	522	3,903	459	535	671	1,940	3,605	680	563	610	570	2,422	2,402
Asia Pacific	1,849	612	419	273	669	1,973	544	543	605	761	2,453	311	481	1,111	1,626	3,529	5,483
North America	0	14	27	144	666	850	49	96	131	100	375	420	990	2,777	4,863	9,050	13,420
Rest of the World	0	0	0	259	259	519	259	0	0	650	909	1,000	500	450	0	1,950	400
Subsidiary - Inksure	1,884	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenues	8,027	2,884	1,021	1,221	2,118	7,244	1,310	1,174	1,407	3,450	7,341	2,411	2,534	4,947	7,060	16,951	21,705
Cost of Revenues	1,830	1,057	447	643	955	3,102	826	738	797	1,380	3,741	1,278	1,267	2,226	3,036	7,806	9,333
Gross Profit	6,197	1,827	574	578	1,163	4,142	484	436	610	2,070	3,600	1,133	1,267	2,721	4,024	9,145	12,372
Operating Expenses																	
Research & Development	1,334	236	229	244	209	918	194	183	241	250	868	350	350	318	327	1,345	1,715
Selling and Marketing	2,828	1,287	260	333	1,146	3,026	557	572	586	797	2,512	829	710	800	962	3,300	4,211
General and Administrative	1,988	501	438	430	460	1,829	503	441	439	550	1,933	550	560	517	541	2,169	2,778
Total Operating Expenses	6,150	2,024	927	1,007	1,815	5,773	1,254	1,196	1,266	1,597	5,313	1,729	1,620	1,635	1,830	6,814	8,704
Operating Income (Loss)	47	(197)	(353)	(429)	(652)	(1,631)	(770)	(760)	(656)	473	(1,714)	(596)	(353)	1,085	2,194	2,330	3,668
Financial Income (Expenses), net	(35)	(15)	(131)	(7)	(80)	(233)	(7)	(70)	(40)	(25)	(142)	(30)	(30)	(30)	(30)	(120)	(120)
Other Income (Expenses), net	6,203	(30)	(11)	(8)	(34)	(83)	(4)	(49)	33	0	(20)	0	0	0	0	0	0
Income (Loss) Before Taxes	6,215	(242)	(495)	(444)	(766)	(1,947)	(781)	(879)	(663)	448	(1,876)	(626)	(383)	1,055	2,164	2,210	3,548
Equity in Losses of Affiliates and Impairment, Taxes on Income	(38)	0	0	0	(48)	(48)	0	0	0	0	0	0	0	0	0	0	0
Income (Loss) from Continuing Operations	6,177	(242)	(495)	(444)	(814)	(1,995)	(781)	(879)	(663)	448	(1,876)	(626)	(383)	1,055	2,164	2,210	3,548
Income (Loss) from Discontinued Operations	(427)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (Loss)	5,750	(242)	(495)	(444)	(814)	(1,995)	(781)	(879)	(663)	448	(1,876)	(626)	(383)	1,055	2,164	2,210	3,548
Diluted Net EPS	\$0.45	(\$0.02)	(\$0.04)	(\$0.03)	(\$0.06)	(\$0.16)	(\$0.06)	(\$0.07)	(\$0.04)	\$0.03	(\$0.12)	(\$0.03)	(\$0.02)	\$0.05	\$0.11	\$0.11	\$0.16
Diluted Shares (WA Outstanding)	12,706	12,706	12,706	12,706	12,718	12,718	12,931	12,967	15,194	17,500	15,500	18,500	19,000	19,500	20,000	19,250	21,750

SuperCom Ltd. Ratio Analysis, 2002 - 2006

	2002A	Mar 1Q03	June 2Q03	Sep 3Q03	Dec 4Q03	2003A	Mar 1Q04	June 2Q04	Sep 3Q04	Dec 4Q04 E	2004E	Mar 1Q05 E	June 2Q05 E	Sep 3Q05 E	Dec 4Q05 E	2005E	2006E
Percent of Revenue																	
Gross Margin	77.20%	63.35%	56.22%	47.34%	54.91%	57.18%	36.96%	37.12%	43.33%	60.00%	49.04%	47.00%	50.00%	55.00%	57.00%	53.95%	57.00%
Research & Development	16.62%	8.18%	22.43%	19.98%	9.87%	12.67%	14.81%	15.59%	17.13%	7.25%	11.82%	14.52%	13.81%	6.43%	4.63%	7.93%	7.90%
Selling and Marketing	35.23%	44.63%	25.47%	27.27%	54.11%	41.77%	42.51%	48.74%	41.66%	23.11%	34.22%	34.39%	28.02%	16.17%	13.62%	19.47%	19.40%
General and Administrative	24.77%	17.37%	42.90%	35.22%	21.72%	25.25%	38.39%	37.58%	31.21%	15.94%	26.33%	22.82%	22.10%	10.46%	7.67%	12.80%	12.80%
EBIT Margin	0.59%	-6.83%	-34.57%	-35.14%	-30.78%	-22.52%	-58.74%	-64.79%	-46.68%	13.71%	-23.34%	-24.72%	-13.93%	21.94%	31.08%	13.75%	16.90%
Pretax Margin	77.43%	-8.39%	-48.48%	-36.36%	-36.17%	-26.88%	-59.57%	-74.93%	-47.17%	12.98%	-25.55%	-25.97%	-15.12%	21.33%	30.66%	13.04%	16.35%
Tax Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net Earnings Margin	71.63%	-8.39%	-48.48%	-36.36%	-38.43%	-27.54%	-59.57%	-74.93%	-47.17%	12.98%	-25.55%	-25.97%	-15.12%	21.33%	30.66%	13.04%	16.35%
Year-to-Year Change																	
Total Revenues	0.1652283	1.1630135	-0.393545	-47.02%	202.67%	-9.76%	-54.56%	14.95%	15.19%	62.91%	1.34%	83.97%	115.90%	251.72%	104.61%	130.92%	800.40%
Europe	107.35%	4915.62%	17064.45%	-74.57%	467.46%	-9.12%	-79.69%	-6.90%	22.77%	271.55%	-7.64%	48.21%	5.08%	-9.10%	-70.61%	-32.80%	253.27%
Asia Pacific	-17.45%	166.90%	-51.01%	73.90%	10.14%	6.71%	-11.11%	29.56%	121.87%	13.62%	24.30%	-42.90%	-11.32%	83.52%	113.82%	43.89%	1665.20%
North America	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	252.79%	253.44%	-9.05%	-84.98%	-55.94%	765.07%	936.50%	2026.31%	4763.33%	2315.58%	3095.24%
Rest of the World	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-100.00%	150.65%	75.27%	286.10%	0.00%	0.00%	-100.00%	114.52%	-60.00%
Gross Profit	-340.76%	-650.30%	-323.35%	-181.99%	-316.98%	-33.16%	-73.49%	-24.10%	5.45%	78.01%	-13.09%	133.91%	190.83%	346.40%	94.38%	154.04%	991.98%
Research & Development	8.90%	-18.62%	-57.51%	5.17%	-23.44%	-31.18%	-17.80%	-20.09%	-1.23%	19.62%	-5.45%	80.41%	91.26%	31.99%	30.75%	54.95%	389.92%
Selling and Marketing	-38.89%	149.90%	-62.04%	-73.53%	209.73%	7.00%	-56.72%	120.00%	75.98%	-30.42%	-16.98%	48.83%	24.13%	36.51%	20.59%	31.37%	407.94%
General and Administrative	-44.84%	-10.54%	-23.16%	-5.91%	14.71%	-8.00%	0.40%	0.68%	2.09%	19.57%	5.69%	9.34%	26.98%	17.87%	-1.55%	12.21%	405.14%
Pretax Income	151.16%	43.19%	55.24%	66.89%	-172.20%	-131.33%	-222.58%	-77.65%	-49.43%	158.47%	3.67%	19.81%	56.44%	259.06%	383.21%	217.85%	666.79%
Net Income	142.79%	48.84%	46.89%	73.38%	-202.26%	-134.69%	-222.58%	-77.65%	-49.43%	155.02%	5.98%	19.81%	56.44%	259.06%	383.21%	217.85%	666.79%
Diluted Net EPS	-242.79%	48.84%	46.89%	73.38%	-202.16%	-134.66%	-216.97%	-74.08%	-24.96%	139.99%	22.86%	43.95%	70.27%	223.94%	322.81%	194.89%	582.10%
Quarter-to-Quarter Change																	
Total Revenues		312.14%	-64.60%	19.59%	73.46%		-38.13%	-10.43%	19.84%	145.31%		-30.13%	5.11%	95.23%	42.71%		
Europe		2355.75%	-74.55%	-4.99%	-4.44%		-12.11%	16.68%	25.30%	189.19%		-64.94%	-17.27%	8.38%	-6.51%		
Asia Pacific		0.69%	-31.54%	-34.90%	145.42%		-18.74%	-0.22%	11.49%	25.69%		-59.16%	54.97%	130.73%	46.44%		
North America		0.00%	96.37%	431.32%	363.84%		-92.71%	96.73%	36.72%	-23.42%		320.00%	135.71%	180.47%	75.15%		
Rest of the World		0.00%	0.00%	0.00%	0.00%		-0.12%	-100.00%	0.00%	150.97%		53.85%	-50.00%	-10.00%	-100.00%		
Gross Profit		-440.86%	-68.58%	0.70%	101.21%		-58.35%	-10.06%	39.91%	239.65%		-45.27%	11.82%	114.76%	47.90%		
Research & Development		-13.55%	-2.97%	6.55%	-14.34%		-7.18%	-5.67%	31.69%	3.73%		40.00%	0.00%	-9.12%	2.76%		
Selling and Marketing		247.84%	-79.80%	28.08%	244.14%		-51.40%	2.69%	2.45%	36.06%		3.97%	-14.35%	12.67%	20.20%		
General and Administrative		24.94%	-12.57%	-1.83%	6.98%		9.35%	-12.33%	-0.45%	25.28%		0.00%	1.82%	-7.60%	4.64%		
Pretax Income		-122.81%	104.55%	-10.30%	72.52%		-1.91%	12.65%	-24.55%	-167.50%		-239.78%	-38.81%	-375.52%	105.06%		
Net Income		-130.40%	104.55%	-10.30%	83.33%		4.10%	12.65%	-24.55%	-167.50%		-239.78%	-38.81%	-375.52%	105.06%		
Diluted Net EPS		-130.40%	104.55%	-10.30%	83.16%		5.68%	12.34%	-35.61%	-158.61%		-232.22%	-40.42%	-368.46%	99.93%		

Investment Risks

Political, economic, and military conditions in Israel. The company's primary research and development, and manufacturing facilities are located in Israel. Any conflicts or instability in the region would negatively affect the company's operations.

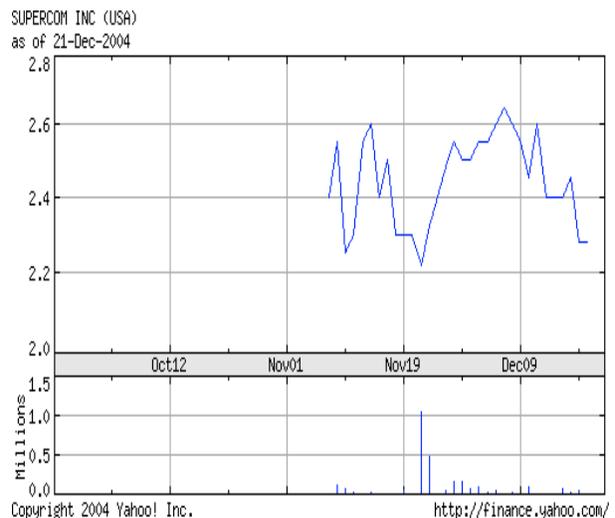
Unpredictable risks from international operations. The company's financial results could be materially and adversely affected by changes in exchange rates, general economic conditions, regulatory requirements, tax structures or changes in tax laws, and longer payment cycles in the countries in geographic areas of operations. Sales and operations may be limited or disrupted by the imposition of governmental controls and regulations, export license agreements, political instability, trade restrictions, changes in tariffs and difficulties in managing international operations.

Dependence on government spending. The company relies on continued government spending, both domestic and international. Any reduction in government spending would have an adverse affect on its financial results.

Variability in Quarterly Results. The combination of a relatively small base and large system deployment can significantly impact quarterly performance from one quarter to the next. While quarterly revenues visibility will improve over time, the company is subject to variability to quarterly results.

Rapid technological changes and new products and services introduction. The company's ability to introduce new or enhanced products and services on a timely basis will be critical in its ability to grow and be competitive.

Dependence on strategic partnership, consortiums, and distribution channels. The company depends on a network of distribution channels worldwide and four distributors for its U.S. commercial market. The company also depends on partnerships and consortiums to enter new market areas. The loss of one or more partnerships, consortium, or key distribution channels would impact operating results.



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- Buy: 12 months, estimated 20% or more appreciation
- Market Perform: Performance in line with the market averages anticipated.
- Under Perform: 12 months, estimated underperformance of 20% or more

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	%of CEUT Universe with this rating	%of rating tier for which CEUT provided IB services
Buy	42%	48%
Market Perform	53%	44%
Under Perform	5%	8%

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- 2 - The research analyst or a member of his/her household is an officer, director or advisory board member of this company.
- 3 - The research analyst or a member of his/her household received compensation in the past 12 months from this company.
- 4 - CEUT officers, other than research associates, serve as officers, directors or advisory board members of this company.
- 5 - CEUT makes a market in this company's securities. CEUT, in its market making capacity, sells to or buys from customers the securities of this company on a principal basis.
- 6 - CEUT has managed or co-managed a public offering and/or private placement of securities for this company in the past 12 months.
- 7 - CEUT has received compensation for investment banking services from this company in the past 12 months.
- 8 - CEUT expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.
- 9 - This company is, or during the past 12 months prior to distribution was, a client of CEUT.
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- 11 - CEUT beneficially owns 1% or more of an equity security of this company.