



## PRESS RELEASE

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**FOR IMMEDIATE RELEASE**

### Commtouch Reports Third Quarter 2013 Results

*Third Quarter 2013 Revenues of \$8.0 Million, Rose 44% Versus a Year Ago*

*Streamlining Efforts Result in Substantial Margin Improvements*

**McLean, VA – November 14, 2013** – Commtouch® (NASDAQ: CTCH), a leading provider of Internet security technology and cloud-based services, today announced its third quarter 2013 financial results for the period ending September 30, 2013.

**Third Quarter 2013 Financial Highlights:**

- Revenues in accordance with U.S. Generally Accepted Accounting Principles (US GAAP) totaled \$8.0 million for the third quarter of 2013 compared to \$8.1 million for the sequential second quarter of 2013 and \$5.6 million in the third quarter of 2012.
- Non-GAAP revenues totaled \$8.1 million for the third quarter of 2013 compared to \$8.2 million for the sequential second quarter of 2013 and \$5.6 million in the third quarter of 2012. The difference between non-GAAP and GAAP revenue is derived from the fact that deferred revenues consolidated from acquired companies are recorded based on fair value rather than book value for GAAP purposes.
- GAAP net loss for the third quarter was \$0.9 million compared to net loss of \$0.7 million for the sequential second quarter of 2013 and net income of \$0.0 million in the third quarter of 2012. Third quarter 2013 results include an acquisition related earn out

adjustment of \$0.3 million and reorganization expenses of \$0.1 million. Second quarter 2013 results included an acquisition related earn out adjustment of \$0.3 million and a \$0.1 million net litigation settlement in favor of the company related to contractual issues.

- GAAP net loss per diluted share for the third quarter was \$0.03, compared to a net loss of \$0.03 for the sequential second quarter of 2013 and GAAP earnings per share of \$0.00 in the third quarter of 2012. Third quarter and second quarter 2013 results include the aforementioned adjustments and expenses.
- Non-GAAP net income for the third quarter 2013 was \$0.3 million compared to \$0.1 million for the sequential second quarter of 2013 and \$0.7 million in the third quarter of 2012.
- Non-GAAP earnings per diluted share for the third quarter 2013 were \$0.01, compared to \$0.00 for the sequential second quarter of 2013 and \$0.03 in the third quarter of 2012.
- Cash used by operating activities during the quarter was \$1.0 million.
- Cash as of September 30, 2013 was \$4.0 million, compared to \$5.0 million as of June 30, 2013.
- After quarter end, the company signed a new credit facility with a U.S. based bank for up to \$7.5 million dollars. This facility replaces the previous line of credit that was outstanding as of September 30, 2013.

“We are pleased with our third quarter performance and the continued demand for our cloud-based detection services globally,” said Shlomi Yanai, chief executive officer at Commtouch. “Our cloud-based Web security solution is in lab trials with key customers and on track for commercial launch in the fourth quarter. In support of this launch, we made several key hires and expanded our sales and marketing organization globally.”

“Our recent streamlining efforts have improved the company’s cost structure and yielded measurable results with a significant sequential increase in both gross and operating margins,” said Brian Briggs, chief financial officer at Commtouch. “Moreover, we completed the core portions of the integration of our Q4 2012 acquisitions during the third quarter.”

For information regarding the non-GAAP financial measures discussed in this release, please see “Use of Non-GAAP Financial Information” and “Reconciliation of Non-GAAP to GAAP Financial Information.”

### **Business Highlights:**

- During the third quarter, Commtouch announced that it was selected by Web.com to provide anti-spam and virus protection services to its base of millions of small business customers. Web.com will integrate Commtouch’s Inbound Anti-Spam, Outbound Spam Protection and Virus Outbreak Detection services into its email infrastructure.

- Commtouch plans to launch its new cloud-based Web security solutions in the fourth quarter. These new solutions, which are built on Commtouch's market leading security detection services, will focus on easy to provision and use Web security cloud services and will be delivered by the company's partners as private label services.
- Commtouch remains on track with the research and development of a new APT service in the coming months.
- Joy Nemitz joined Commtouch as Chief Marketing Officer in the third quarter. Joy brings significant software and cloud experience including senior strategic marketing and business development roles at VeriSign and Synchronoss. Ms. Nemitz received a Master of Science degree from Southeastern University and a Bachelor of Arts degree from Gannon University in Erie, Pennsylvania.
- Commtouch continued to consolidate its corporate functions to its East Coast headquarters and as part of these efforts brought Sue Lee on board as General Counsel and Corporate Secretary. Sue brings a wealth of public company experience, including as counsel for Genzyme Corporation and vice president, business and legal affairs for MTV Networks. Ms. Lee received a J.D. degree from Harvard Law School and a Bachelor of Arts degree in East Asian Studies from Harvard University.

### **Business Outlook**

Based on current expectations, Commtouch is reaffirming its financial outlook for the full year 2013. The company continues to anticipate full year 2013 revenue between \$32.0 million and \$33.0 million, an increase of approximately 34% to 38% compared with full year 2012. Full year 2013 GAAP net loss is expected to be less than \$2.0 million and non-GAAP net income is expected to be greater than \$1.5 million.

The above outlook is as of the date of this release, and the company undertakes no obligation to update its estimates in the future.

### **Use of Non-GAAP Measures**

Non-GAAP financial measures consist of GAAP financial measures adjusted to exclude: stock based compensation expenses, amortization and impairment of acquired intangible assets, executive termination costs, deferred taxes, acquisition related costs, restructuring charges associated with consolidating general and administrative functions and adjustments to earn-out obligations. The purpose of such adjustments is to give an indication of the company's performance exclusive of non-cash charges and other items that are considered by management to be outside of the company's core operating results. The company's non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures, and should be read only in conjunction with the company's consolidated financial statements prepared in accordance with GAAP. Company management regularly uses supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions.

These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. The company believes this adjustment is useful to investors as a

measure of the ongoing performance of our business. The company believes these non-GAAP financial measures provide consistent and comparable measures to help investors understand the company's current and future operating cash flow performance. These non-GAAP financial measures may differ materially from the non-GAAP financial measures used by other companies. Reconciliation between results on a GAAP and non-GAAP basis is provided in a table immediately following the Consolidated Statements of Income. The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. Management uses both GAAP and non-GAAP measures when evaluating the business internally and therefore felt it important to make these non-GAAP adjustments available to investors.

### **Financial Results Conference Call**

The company has scheduled a conference call later today, November 14, 2013, at 10:00 a.m. ET to review the third quarter 2013 highlights, as well as walk through a strategic overview and evolution of the company's growth strategy.

To participate, please call one of the following teleconferencing numbers by dialing in at least 10 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

US Dial-in Number: 1-877-407-8289  
Israel Dial-in Number: 1-80-940-6247  
International Dial-in Number: 1-201-689-8341  
at:

10:00 a.m. Eastern Time, 5:00 p.m. Israel Time

The call will be simultaneously webcast live from a link on Commtouch's website at [www.commtouch.com](http://www.commtouch.com).

For those unable to listen to the live call, a webcast replay of the call will be available from the day after the call in the investor relations section of Commtouch's corporate website.

### **About Commtouch**

Commtouch® (NASDAQ: CTCH) is a leading provider of Internet security technology and cloud-based services for vendors and service providers, increasing the value and profitability of customers' solutions by protecting billions of Internet transactions on a daily basis. With 12 global data centers and renowned technology, Commtouch's email, Web, and antivirus capabilities easily integrate into customers' products and solutions, keeping more than 550 million end users safe. To learn more, visit <http://www.commtouch.com>.

- Blog: <http://blog.commtouch.com/cafe>
- Facebook: <http://www.facebook.com/commtouch>
- LinkedIn: <http://www.linkedin.com/company/commtouch>
- Twitter: @Commtouch

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*This press release contains forward-looking statements, including projections about our business, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements in the future tense, and statements including words such as "expect," "plan," "estimate," "anticipate," or "believe" are forward-looking statements. These statements are based on information available to us at the time of the release; we assume no obligation to update any of them. The statements in this release, including i) the company's 2013 revenue and profit forecasts, and ii) the expected commercial launch of Commtouch's cloud-based Web security solution, are not guarantees of future performance and actual results could differ materially from our current expectations as a result of numerous factors, including business conditions and growth or deterioration in the Internet security market, commerce and the general economy, both domestic as well as international; fewer than expected new-partner relationships; competitive factors, including pricing pressures; technological developments, and products offered by competitors; the ability of our OEM partners to successfully penetrate markets with products integrated with Commtouch technology; a slower than expected acceptance rate for our newer product offerings; availability of qualified staff; and technological difficulties and resource constraints encountered in developing new products, as well as those risks described in the text of this press release and the company's Annual Reports on Form 20-F and reports on Form 6-K, which are available through [www.sec.gov](http://www.sec.gov).*

COMMTOUCH SOFTWARE LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of US dollars, except per share amounts)

	Three months ended		Nine months ended	
	September 30		September 30	
	2013	2012	2013	2012
	Unaudited	Unaudited	Unaudited	Unaudited
Revenues	\$ 8,019	\$ 5,558	\$ 23,999	\$ 17,125
Cost of revenues	<u>1,722</u>	<u>917</u>	<u>5,256</u>	<u>2,983</u>
Gross profit	<u>6,297</u>	<u>4,641</u>	<u>18,743</u>	<u>14,142</u>
Operating expenses:				
Research and development, net	2,079	1,462	6,525	4,096
Sales and marketing	2,559	1,564	7,861	3,994
General and administrative	<u>2,112</u>	<u>1,550</u>	<u>6,590</u>	<u>4,265</u>
Total operating expenses	<u>6,750</u>	<u>4,576</u>	<u>20,976</u>	<u>12,355</u>
Operating (loss) income	<u>(453)</u>	<u>65</u>	<u>(2,233)</u>	<u>1,787</u>
Financial (expenses) income, net	<u>(323)</u>	<u>63</u>	<u>(866)</u>	<u>150</u>
Net (loss) income before taxes	<u>(776)</u>	<u>128</u>	<u>(3,099)</u>	<u>1,937</u>
Tax (expense) benefit	<u>(138)</u>	<u>(109)</u>	<u>181</u>	<u>95</u>
<b>Net (loss) income attributable to ordinary and equivalently participating shareholders</b>	<b><u>\$ (914)</u></b>	<b><u>\$ 19</u></b>	<b><u>\$ (2,918)</u></b>	<b><u>\$ 2,032</u></b>
Earning (loss) per share - basic	<u>\$ (0.03)</u>	<u>\$ 0.00</u>	<u>\$ (0.11)</u>	<u>\$ 0.08</u>
Earning (loss) per share - diluted	<u>\$ (0.03)</u>	<u>\$ 0.00</u>	<u>\$ (0.11)</u>	<u>\$ 0.08</u>
Weighted average number of shares outstanding:				
Basic	<u>26,384</u>	<u>24,355</u>	<u>26,150</u>	<u>24,358</u>
Diluted	<u>26,384</u>	<u>24,845</u>	<u>26,150</u>	<u>24,984</u>

**COMMTouch SOFTWARE LTD.**

**RECONCILIATION OF SELECTED GAAP MEASURES TO NON GAAP MEASURES**

(in thousands of US dollars, except per share amounts)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	Unaudited	Unaudited	Unaudited	Unaudited
GAAP operating (loss) profit	\$ (453)	\$ 65	\$ (2,233)	\$ 1,787
Stock-based compensation (1)	329	386	1,003	1,098
Other acquisition related costs (2)	-	220	142	377
Amortization of intangible assets (3)	542	101	1,307	303
Adjustment to earn out liabilities (4)	-	-	(3)	-
Executive terminations (6)	-	-	165	-
Adjustment to deferred revenues (7)	74	-	412	-
Settlement agreements (8)	16	-	91	-
Re organization expenses (9)	96	-	96	-
<b>Non-GAAP operating profit</b>	<b>\$ 604</b>	<b>\$ 772</b>	<b>\$ 980</b>	<b>\$ 3,565</b>
GAAP net (loss) income	\$ (914)	\$ 19	\$ (2,918)	\$ 2,032
Stock-based compensation (1)	329	386	1,003	1,098
Other acquisition related costs (2)	-	220	142	377
Amortization of intangible assets (3)	542	101	1,307	303
Adjustment to earn out liabilities (4)	271	-	703	28
Income taxes (5)	(92)	18	(464)	(199)
Executive terminations (6)	-	-	165	-
Adjustment to deferred revenues (7)	74	-	412	-
Settlement agreements (8)	16	-	91	-
Re organization expenses (9)	96	-	96	-
<b>Non-GAAP net income</b>	<b>\$ 322</b>	<b>\$ 744</b>	<b>\$ 537</b>	<b>\$ 3,639</b>
GAAP (loss) earnings per share (diluted)	\$ (0.03)	\$ 0.00	\$ (0.11)	\$ 0.08
Stock-based compensation (1)	0.01	0.02	0.04	0.04
Other acquisition related costs (2)	-	0.009	0.01	0.02
Amortization of intangible assets (3)	0.02	0.004	0.05	0.01
Adjustment to earn out liabilities (4)	0.01	-	0.03	0.00
Income taxes (5)	(0.00)	0.001	(0.02)	(0.01)
Executive terminations (6)	-	-	0.01	-
Adjustment to deferred revenues (7)	0.00	-	0.02	-
Settlement agreements (8)	0.00	-	0.00	-
Re organization expenses (9)	0.00	-	0.00	-
<b>Non-GAAP earnings per share (diluted)</b>	<b>\$ 0.01</b>	<b>\$ 0.03</b>	<b>\$ 0.02</b>	<b>\$ 0.15</b>
Numbers of shares used in computing non-GAAP earnings per share (diluted)	26,445	24,845	26,277	24,984

COMMTOUCH SOFTWARE LTD.

RECONCILIATION OF SELECTED GAAP MEASURES TO NON GAAP MEASURES

(in thousands of US dollars, except per share amounts)

	Three months ended		Nine months ended	
	September 30		September 30	
	2013	2012	2013	2012
	Unaudited	Unaudited	Unaudited	Unaudited
<b><u>(1) Stock-based compensation</u></b>				
Cost of revenues	\$ 12	\$ 9	\$ 38	\$ 27
Research and development	64	84	185	222
Sales and marketing	51	103	186	269
General and administrative	202	190	594	580
	<u>\$ 329</u>	<u>\$ 386</u>	<u>\$ 1,003</u>	<u>\$ 1,098</u>
<b><u>(2) Other acquisition related costs</u></b>				
General and administrative	\$ -	\$ 220	\$ 142	\$ 377
	<u>\$ -</u>	<u>\$ 220</u>	<u>\$ 142</u>	<u>\$ 377</u>
<b><u>(3) Amortization of intangible assets</u></b>				
Cost of revenues	\$ 235	\$ 48	\$ 564	\$ 144
Sales and marketing	307	53	743	159
	<u>\$ 542</u>	<u>\$ 101</u>	<u>\$ 1,307</u>	<u>\$ 303</u>
<b><u>(4) Adjustment to earn out liabilities</u></b>				
General and administrative	\$ -	\$ -	\$ (3)	\$ -
Financial expenses, net	271	-	706	28
	<u>\$ 271</u>	<u>\$ -</u>	<u>\$ 703</u>	<u>\$ 28</u>
<b><u>(5) Income taxes</u></b>				
Deferred tax asset - tax benefit	\$ (92)	\$ 18	\$ (464)	\$ (199)
	<u>\$ (92)</u>	<u>\$ 18</u>	<u>\$ (464)</u>	<u>\$ (199)</u>
<b><u>(6) Executive terminations</u></b>				
General and administrative	\$ -	\$ -	\$ 165	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165</u>	<u>\$ -</u>
<b><u>(7) Adjustment to deferred revenues</u></b>				
Revenues	\$ 74	\$ -	\$ 412	\$ -
	<u>\$ 74</u>	<u>\$ -</u>	<u>\$ 412</u>	<u>\$ -</u>
<b><u>(8) Settlement agreements</u></b>				
General and administrative	\$ 16	\$ -	\$ 91	\$ -
	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 91</u>	<u>\$ -</u>
<b><u>(9) Re organization expenses</u></b>				
General and administrative	\$ 96	\$ -	\$ 96	\$ -
	<u>\$ 96</u>	<u>\$ -</u>	<u>\$ 96</u>	<u>\$ -</u>



COMMTOUCH SOFTWARE LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands of US dollars)

	<u>September 30</u>	<u>December 31</u>
	<u>2013</u>	<u>2012</u>
	Unaudited	Audited
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,972	\$ 5,137
Trade receivables	5,809	5,996
Deferred income taxes	2,326	2,239
Prepaid expenses and other accounts receivable	2,346	1,503
Total current assets	<u>14,453</u>	<u>14,875</u>
Long-term lease deposits	83	57
Severance pay fund	817	756
Property and equipment, net	2,560	1,608
Deferred income taxes	3,478	3,348
Intangible assets, net	36,389	37,086
Investment in affiliate	1,483	1,403
Total assets	<u>\$ 59,263</u>	<u>\$ 59,133</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Current credit line	\$ 3,113	\$ -
Accounts payable	788	958
Employees and payroll accruals	2,793	2,280
Accrued expenses and other liabilities	609	1,587
Short-term earn out liabilities	1,916	4,048
Deferred revenues	4,414	4,535
Total current liabilities	<u>13,633</u>	<u>13,408</u>
Long-term deferred revenues	1,911	492
Long-term deferred tax	3,005	3,187
Long-term earn out liabilities	5,342	6,409
Accrued severance pay	917	915
Total long-term liabilities	<u>11,175</u>	<u>11,003</u>
Shareholders' equity	<u>34,455</u>	<u>34,722</u>
Total liabilities and shareholders' equity	<u>\$ 59,263</u>	<u>\$ 59,133</u>

COMMTOUCH SOFTWARE LTD.

CONDENSED CONSOLIDATED CASH FLOW DATA

(in thousands of US dollars)

	Three months ended		Nine months ended	
	September 30		September 30	
	2013	2012	2013	2012
	Unaudited	Unaudited	Unaudited	Unaudited
<b>Cash flow from operating activities</b>				
Net (loss) income	\$ (914)	\$ 19	\$ (2,918)	\$ 2,032
<u>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</u>				
Depreciation	361	155	858	432
Compensation related to options issued to employees and consultants	329	386	1,003	1,098
Amortization of intangible assets	542	102	1,307	304
Accrued interest and exchange rate differences on credit line	110	-	108	-
Accretion of earn out liabilities	271	-	702	-
<u>Changes in assets and liabilities:</u>				
(Increase) decrease in trade receivables	(611)	(794)	201	(1,490)
(Increase) decrease in deferred taxes	(92)	18	(464)	(199)
Decrease (increase) in prepaid expenses and other receivables	67	(848)	(935)	(684)
(Decrease) increase in accounts payable	(406)	(113)	(318)	38
Increase (decrease) in employees and payroll accruals, accrued expenses and other liabilities	37	(132)	(479)	162
(Decrease) increase in deferred revenues	(624)	(154)	1,334	(462)
Decrease in accrued severance pay, net	(50)	(26)	(59)	(23)
<b>Net cash (used in) provided by operating activities</b>	<u>(980)</u>	<u>(1,387)</u>	<u>340</u>	<u>1,208</u>
<b>Cash from investing activities</b>				
Change in long-term lease deposits	(20)	6	(26)	(5)
Proceeds from sale of fixed assets	4	-	4	-
Investment in affiliate	-	-	(80)	(3,400)
Purchase of property and equipment	(320)	(309)	(1,656)	(629)
<b>Net cash used in investing activities</b>	<u>(336)</u>	<u>(303)</u>	<u>(1,758)</u>	<u>(4,034)</u>
<b>Cash flows from financing activities</b>				
Credit line	-	-	3,005	-
Buyback of outstanding shares	-	(828)	-	(1,441)
Earn out payment of acquisition	-	-	(3,994)	-
Proceeds from options exercised	297	29	1,216	733
<b>Net cash provided by (used in) financing activities</b>	<u>297</u>	<u>(799)</u>	<u>227</u>	<u>(708)</u>
<b>Effect of exchange rate changes on cash</b>	<b>40</b>	<b>-</b>	<b>26</b>	<b>-</b>
<b>(Decrease) in cash and cash equivalents</b>	<b>(1,019)</b>	<b>(2,489)</b>	<b>(1,191)</b>	<b>(3,534)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>4,951</b>	<b>19,823</b>	<b>5,137</b>	<b>20,868</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 3,972</b>	<b>\$ 17,334</b>	<b>\$ 3,972</b>	<b>\$ 17,334</b>