

# CYREN LTD.

## FORM 20-F/A

(Amended Annual and Transition Report (foreign private issuer))

Filed 11/29/00 for the Period Ending 12/31/99

Telephone	7037603320
CIK	0001084577
Symbol	CYRN
SIC Code	7372 - Services-Prepackaged Software
Industry	Software
Sector	Technology
Fiscal Year	12/31

# COMMTOUCH SOFTWARE LTD

## FORM 20-F/A

(Amended Annual and Transition Report (foreign private issuer))

Filed 11/29/2000 For Period Ending 12/31/1999

Address	C/O COMMTOUCH SOFTWARE INC 3945 FREEDOM CIRCLE SUITE 730 SANTA CLARA, California 95054
Telephone	408-653-4330
CIK	0001084577
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

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

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AMENDMENT NO. 2

TO

**FORM 20-F**

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

For the fiscal year ended December 31, 1999

*Commission file number 000-26495*

**COMMTOUCH SOFTWARE LTD.**

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(Exact name of Registrant as specified in its charter and translation of  
Registrant's name into English)

**Israel**

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(Jurisdiction of incorporation or organization)

6 Hazoran Street  
Poleg Industrial Park, P.O. Box 8511  
Netanya 42504, Israel  
011-972-9-863-6888

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(Address of principal executive offices)

James E. Collins, Chief Financial Officer  
3945 Freedom Circle, Suite 400  
Santa Clara, California 95054  
(408)653-4330  
(name, address, including zip code, and telephone number,  
including area code of agent for service of process)

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

Title of each class

Name of each exchange on which registered

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N/A

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None

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

Ordinary Shares, par value NIS 0.05 per share

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(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d)  
of the Act.

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 0.05 15,199,344**

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 which financial statement item the registrant has elected to follow.

Item 17  Item 18

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## PART I

### Item 5. Nature of Trading Market.

The Company's Ordinary Shares have traded publicly on The Nasdaq Stock Market under the symbol "CTCH" since July 13, 1999. The Company's initial public offering price was \$16.00 per share.

The following table lists the high and low closing sales prices for the Company's Ordinary Shares, for the periods indicated, as reported by The Nasdaq Stock Market:

	High	Low
	-----	-----
1999:		
Third Quarter (beginning July 13, 1999)	\$ 22.625	\$ 11.0625
Fourth Quarter	\$ 49.125	\$ 14.3125
2000:		
First Quarter	\$ 66.50	\$ 35.5625

If the Company decides to distribute a cash dividend out of income that has been exempted from tax, the income out of which the dividend is distributed will be subject to the 25% Israeli corporate tax rate. The Company has never declared or paid cash dividends on its Ordinary Shares and does not anticipate paying any cash dividends in the foreseeable future. The Company intends to retain future earnings to finance the development of its business.

The Company has 80 registered shareholders and approximately 5,279 beneficial holders.

### Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere in this report. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, the words "expects," "anticipates," "believes," "intends," "plans," "seeks" and "estimates" and similar expressions are intended to identify forward-looking statements. Commtouch's actual results and the timing of certain events may differ significantly from those projected

in the forward-looking statements. Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those set forth under "Item 1--Risk Factors" and in the Company's other filings with the Securities and Exchange Commission.

## **Overview**

We are a leading global provider of outsourced integrated Web-based email and messaging solutions to businesses. Our solutions are flexible, highly customizable and enable us to satisfy the unique email and messaging needs of our customers worldwide. Our customers are large and small businesses who offer our Web-based email through their website to their end users and employees. As of December 31, 1999, we had over 250 global customers. Through our customers' sites we serve approximately 8.4 million active emailboxes. We also serve over 1.0 million active emailboxes to small businesses and websites through our ZapZone Network.

## **Revenue Sources**

**Service Fees.** During 1999, most of our email service revenue resulted from contracts that required our customers to pay us either a share of advertising revenues subject to a minimum annual revenue commitment or a monthly per mailbox price subject to a minimum commitment fee, and fees for direct marketing and communications services.

Prior to 1999, some of our contracts with customers provided for email service fees based solely on a share of banner advertising revenue, recognized only when such revenues were earned by the customers, with no minimum annual commitment.

**Direct E-marketing.** Ecommerce vendors seek channels through which they can market goods and services. Because of our installed user base and our agreements with our customers, we can assist ecommerce companies in distributing their services to our customers' end users who have opted to receive offers by email. We share with our customers the revenues from this direct e-marketing, which are earned either on a per-message basis, a referral basis, or as a commission on products sold. In the fourth quarter of 1998, we began to offer direct e-marketing opportunities to ecommerce vendors on a test basis. In 1999, direct e-marketing revenues became a meaningful portion of revenue. We recognized 11% of our total revenues from MyPoints, a permission based email service company.

## **Strategic Transaction with Go2Net**

Concurrent with the sale of our shares in the initial public offering we entered into an agreement with Go2Net, a network of branded, technology- and community-driven websites focused on personal finance, commerce, and games. Go2Net also develops Web-related software. Pursuant to the agreement we are offering Go2Net's end users a private label email service, including our email, calendaring and other services. The services are customized to the look and feel of Go2Net's websites. The terms of this agreement are substantially the same as our commercial agreements with other customers except that we have agreed to share a materially greater portion of our advertising revenues with Go2Net than we are sharing under other similar agreements. In addition, in connection with the agreement, we issued to Go2Net a warrant to purchase 1,136,000 ordinary shares at a per share exercise price of \$12.80, subject to adjustment as set forth in the warrant. The warrant is fully vested and non-forfeitable. The warrant will expire on July 16, 2004, the fifth anniversary of the initial public offering. The fair value of the warrant, estimated at \$5.8 million, is being amortized to operating expenses ratably over the minimum term of the agreement, which is one year. Simultaneously with the sale of the shares in the initial public offering, we sold a total of 1,344,086 ordinary shares to Go2Net and Vulcan Ventures Incorporated at \$14.88 per share in a private placement. In the future, we may have to issue in-the-money warrants to acquire our ordinary shares to customers who provide us with a large base of potential end users. We may also have to provide these customers with more favorable commercial terms than we have previously provided to our customers. The issuance of in-the-money warrants and the grant of more favorable terms to customers may further dilute our shareholders, increase our operating loss in the future and cause our stock price to fall.

## Issuance of Shares Upon Exercise of Microsoft Warrant

We entered into an Email Services Agreement with Microsoft Corporation dated October 26, 1999. Under this agreement, Commtouch will, at Microsoft's option, customize, host and maintain email services for Microsoft websites in the U.S. and internationally. Microsoft will pay one-time fees for the set-up and customization of the email service for each website with respect to which Microsoft chooses to use our services, as well as quarterly service fees for the email service based on the number of mailboxes hosted. The term of the agreement shall continue for 12 months after the first commercial distribution date of the email service and Microsoft may extend the initial term on a quarterly or annual basis upon 60 days prior written notice. The agreement may be terminated by Microsoft for convenience upon 90 days' prior written notice, or by either party upon a material breach by the other party upon the terms specified in the agreement. In connection with the agreement, Commtouch issued to Microsoft a fully vested warrant, exercisable until December 29, 1999, to purchase 707,965 of Commtouch's ordinary shares at an exercise price of \$28.25 per share for an aggregate exercise price of \$20.0 million. On December 29, 1999, Microsoft exercised the warrant and now holds 707,965 ordinary shares. The fair value of the warrant, estimated at \$1.9 million, is amortized to operating expenses over the minimum term of the agreement (12 months).

## Results of Operations

The following table sets forth financial data for the years ended December 31, 1997, 1998 and 1999 (in thousands):

	Year Ended December 31,		
	1997	1998	1999
Revenues:			
Email services .....	\$ --	\$ 389	\$ 4,251
Software licenses, maintenance and services .....	899	--	--
Total revenues .....	899	389	4,251
Cost of revenues:			
Email services .....	--	569	3,643
Software licenses, maintenance and services .....	165	--	--
Total cost of revenues .....	165	569	3,643
Gross profit (loss) .....	734	(180)	608
Operating expenses:			
Research and development, net .....	1,108	1,149	2,942
Sales and marketing .....	2,202	2,001	7,722
General and administrative .....	829	604	4,328
Amortization of prepaid marketing expenses .....	--	--	3,263
Amortization of stock-based employee deferred compensation .....	--	91	3,436
Total operating expenses .....	4,139	3,845	21,691
Operating loss .....	(3,405)	(4,025)	(21,083)
Interest and other income (expenses), net .....	(68)	(326)	1,232
Net loss .....	\$ (3,473)	\$ (4,351)	\$ (19,851)

## Comparison of Years Ended December 31, 1997, 1998 and 1999

In 1997, we ceased all sales of stand-alone email client software licenses, maintenance and services and focused on developing our Web-based email service business. Accordingly, comparisons between 1997 and 1998 are not meaningful.

**Revenues.** Email service revenues increased 993% from \$389,000 in 1998 to \$4.3 million in 1999. One customer, Excite, represented 54% of the revenue in 1998. Revenues from MyPoints, a permission based email service company, represented 11% of total revenues during 1999. As of December 31, 1999, the Company had firm backlog from minimum commitments under take or pay contracts amounting to approximately \$13.1 million, which will be recognized as revenue over future quarters.

**Cost of Revenues.** Cost of revenues increased 540% from \$569,000 in 1998 to \$3.6 million in 1999, due to the increase in costs associated with the new contracts served during 1999. The cost increase between 1998 and 1999 was primarily

attributed to an equivalent increase in personnel and related costs and depreciation. Cost of revenues consisted primarily of personnel and related costs, depreciation of equipment, and costs related to third parties for Internet data center and access charges. We expect cost of revenues to increase on an absolute basis, primarily as a result of an increase in our email service revenues, but to decrease as a percentage of email service revenues due to economies of scale.

**Research and Development Costs, Net.** Research and development expenses increased 156% from \$1.1 million in 1998 to \$2.9 million in 1999 due primarily to an increase in personnel and other related costs. In previous years, we received royalty-bearing grants from the Israeli government, recorded as a reduction of research and development costs. We have an obligation to pay royalties to the Israeli government with a remaining future liability of \$270,000. We expect that research and development costs will increase due to increased personnel and related costs associated with the accelerated development of new email service offerings.

**Sales and Marketing.** Sales and marketing expenses increased 286% from \$2.0 million in 1998 to \$7.7 million in 1999, due primarily to increased personnel and related costs. We expect sales and marketing expenses to increase significantly in the future in absolute dollar amounts due to increases in personnel costs related directly to new employees being hired to conduct sales and the related market support to further develop our brand. Sales and marketing expenses were \$2.2 million in 1997 and related only to the software license sales that were discontinued in 1997.

**General and Administrative.** General and administrative expenses increased 617% from \$604,000 in 1998 to \$4.3 million in 1999, due primarily to personnel and related costs. We expect general and administrative costs to increase on an absolute basis due to increased personnel and related costs, higher facility costs associated with additional personnel and other costs necessary to support and develop the email service business. General and administrative expenses were \$829,000 in 1997 and related only to the software license sales that were discontinued in 1997.

**Amortization of Prepaid Marketing Expenses.** Amortization of prepaid marketing expenses related to the Go2Net and Microsoft warrants and totaled \$3.3 million for 1999. The prepaid marketing expense is being amortized using the straight-line method over the one-year minimum term of each of the commercial agreements.

**Amortization of Stock-based Employee Deferred Compensation.** Our stock-based employee deferred compensation expenses increased 3,676% from \$91,000 for 1998 to \$3.4 million for 1999. The deferred compensation is being amortized using the sum-of-digits method over the vesting schedule, generally four years.

**Interest and Other Income (Expense), Net.** Our interest and other income (expense), net, increased from a net expense of \$326,000 for 1998 to a net income of \$1.2 million for 1999, due primarily to increased interest income earned from cash equivalents and marketable securities.

**Income Taxes.** As of December 31, 1999, we had approximately \$22.5 million of Israeli net operating loss carryforwards and \$14.2 million of U.S. federal net operating loss carryforwards available to offset future taxable income. The U.S. net operating loss carryforwards will expire in various amounts in the years 2008 to 2020. The Israeli net operating loss carryforwards have no expiration date.

## Quarterly Results of Operations

The following table sets forth certain unaudited quarterly statements of operations data for the eight quarters ended December 31, 1999. This information has been derived from the Company's consolidated unaudited Financial Statements, which, in management's opinion, have been prepared on the same basis as the audited Consolidated Financial Statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the quarters presented. This information should be read in conjunction with our audited Consolidated Financial Statements and the Notes thereto included elsewhere in this report. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	Three Months Ended							
	Mar. 31, 1998	Jun. 30, 1998	Sept. 30, 1998	Dec. 31, 1998	Mar. 31, 1999	Jun. 30, 1999	Sept. 30, 1999	Dec. 31, 1999
	(in thousands)							
Email service revenues .....	\$ 32	\$ 59	\$ 130	\$ 168	\$ 346	\$ 552	\$ 1,117	\$ 2,236
Cost of email service revenues .....	59	85	166	259	435	605	1,043	1,560
Gross profit (loss) .....	(27)	(26)	(36)	(91)	(89)	(53)	74	676
Operating expenses:								
Research and development,								
net .....	266	305	308	270	340	510	857	1,235
Sales and marketing .....	459	506	509	527	608	1,363	2,368	3,383
General and administrative .....	138	137	151	178	617	683	1,345	1,683
Amortization of prepaid								
marketing expenses .....	--	--	--	--	--	--	1,464	1,799
Amortization of stock-based								
employee compensation .....	2	8	18	63	386	1,013	1,096	941
Total operating expenses .....	865	956	986	1,038	1,951	3,569	7,130	9,041
Operating loss .....	(892)	(982)	(1,022)	(1,129)	(2,040)	(3,622)	(7,056)	(8,365)
Interest and other income								
(expenses), net .....	(27)	(59)	(28)	(212)	(271)	6	577	920
Net loss .....	\$ (919)	\$ (1,041)	\$ (1,050)	\$ (1,341)	\$ (2,311)	\$ (3,616)	\$ (6,479)	\$ (7,445)

## Fluctuations in Quarterly Results

We have incurred operating losses since inception, and we cannot be certain that we will achieve profitability on a quarterly or annual basis in the future. Our results of operations have fluctuated and are likely to continue to fluctuate significantly from quarter to quarter as a result of a variety of factors, many of which are outside of our control. A relatively large expense in a quarter could have a negative effect on our financial performance in that quarter. Additionally, as a strategic response to a changing competitive environment, we may elect from time to time to make certain pricing, service, marketing or acquisition decisions that could have a negative effect on our quarterly financial performance. Other factors that may cause our future operating results to fluctuate include, but are not limited to:

- o continued growth of the Internet and of email usage;
- o demand for Web-based email services;
- o our ability to attract and retain customers and maintain customer satisfaction;
- o our ability to upgrade, develop and maintain our systems and infrastructure;
- o the amount and timing of operating costs and capital expenditures relating to expansion of our business and infrastructure;
- o the size, timing and fulfillment of orders for our email services;
- o the receipt or payment of irregular or nonrecurring revenues or expenses;
- o technical difficulties or system outages;
- o foreign exchange rate fluctuations;
- o the announcement or introduction of new or enhanced services by our competitors;
- o our ability to attract and retain qualified personnel with Internet industry expertise, particularly sales and marketing personnel;

- o the pricing policies of our competitors;
- o failure to increase our sales; and
- o governmental regulation relating to the Internet, and email in particular.

In addition to the factors set forth above, our operating results will be impacted by the extent to which we incur non-cash charges associated with stock-based arrangements with employees and non-employees.

## **Liquidity and Capital Resources**

We have financed our operations principally from the sale of equity securities and to a lesser extent from bank loans and research and development grants from the Israeli government. In the first quarter of 1999, we issued Series C Convertible Preferred Shares to investors resulting in net proceeds of \$5.3 million. In the second quarter of 1999, we issued to investors Convertible Promissory Notes which later converted into 42,081 Series D Convertible Preferred Shares, resulting in net proceeds of approximately \$13.2 million. All of our convertible preferred shares automatically converted into ordinary shares upon the closing of our initial public offering on July 16, 1999. On July 16, 1999, we raised \$70.8 million, net of underwriters commissions, from our initial public offering (including the exercise of the underwriters' overallotment option) and the private placement of our ordinary shares in connection with the strategic partnership with Go2Net and Vulcan Ventures. On December 29, 1999 we raised an additional \$20.0 million from the sale of ordinary shares to Microsoft Corporation upon the exercise of a warrant issued in connection with an email services agreement with Microsoft. As of December 31, 1999, we had \$66.0 million in cash and cash equivalents and \$18.1 million in marketable securities.

Net cash provided by financing activities was \$102.9 million in 1999. Net cash used in operating activities was \$11.2 million in 1999. Net cash used for operating activities is primarily comprised of a net loss for 1999, partially offset by depreciation and amortization expenses, increases in other accounts receivable and prepaid expenses. Net cash used in investing activities was \$26.5 million in 1999. These investing activities consisted primarily of purchases of property and equipment and purchases of marketable securities.

As of December 31, 1999, we had net working capital of \$88.1 million. As of that date, we had no material commitments for capital expenditures.

We believe that the existing cash and our other financing arrangements, provide us with sufficient funds to finance operations and continued growth through the next 12 months.

## **Effective Corporate Tax Rates**

Our tax rate will reflect a mix of the U.S. statutory tax rate on our U.S. income and the Israeli tax rate discussed below. We expect that most of our taxable income will be generated in Israel. Israeli companies are generally subject to corporate tax at the rate of 36% of taxable income. The majority of our income, however, is derived from our company's capital investment program with Approved Enterprise status under the Law for the Encouragement of Capital Investments in three separate plans, and is therefore eligible for certain tax benefits. Pursuant to these benefits, we will enjoy a tax exemption on income derived during the first two years in which such investment plans produce taxable income (provided that we do not distribute such income as a dividend) and a reduced tax rate of 10% to 25% for an additional period of five to eight years depending on the level of foreign investment in Commtouch. All of these tax benefits are subject to various conditions and restrictions. There can be no assurance that we will obtain approval for additional Approved Enterprise programs, or that the provisions of the law will not change. Moreover, notwithstanding these tax benefits, to the extent we receive income from countries other than Israel, such income may be subject to withholding tax. Since we have incurred tax losses in every year through 1999, we have not yet used the tax benefits for which we are eligible.

## **Impact of Inflation and Currency Fluctuations**

Most of our sales are in dollars. However, a large portion of our costs relates to our operations in Israel. A substantial portion of our operating expenses, primarily our research and development expenses, is denominated in NIS. For the purposes of our financial statements, costs not effectively denominated in dollars are translated to dollars at prevailing exchange rates when recorded, and will increase if the rate of inflation in Israel exceeds the devaluation of the NIS as compared to the dollar or if the timing of such devaluations lags considerably behind inflation. Consequently, we are and will be affected by

changes in the prevailing NIS/dollar exchange rate. We might also be affected by the dollar exchange rate to the major European and Asian currencies, due to the fact that we derive revenues from customers in Europe and Asia.

The rate of inflation in Israel was 8.1% and 10.6% in 1995 and 1996. The rate of devaluation in Israel was 3.9% and 3.7% in 1995 and 1996. This imbalance was reversed when the rate of inflation was 7.0% and 8.6% in 1997 and 1998. The rate of devaluation in Israel was 8.8% and 17.6% in 1997 and 1998. In 1999, the rate of inflation was 1.3% and the rate of devaluation in Israel was 0.2%.

Because exchange rates between the NIS and the dollar fluctuate continuously (albeit with a historically declining trend in the value of the NIS), exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency remeasurements are reported in the Consolidated Financial Statements in current operations.

The representative exchange rate, as reported by the Bank of Israel, was NIS 4.153 for one dollar on December 31, 1999 (NIS 4.160 on December 31, 1998 and NIS 3.536 on December 31, 1997).

### **Item 13. Interest of Management in Certain Transactions.**

#### **Relationship with Go2Net**

Concurrent with the closing of the initial public offering, our U.S. subsidiary, Commtouch Software, Inc., entered into a Customized Web-based Email Service Agreement with Go2Net. Under that agreement, we provide customer email services, including calendaring and other products and services, to end users of Go2Net's various properties, which may include cable subscribers of Charter Communications and its affiliates, users of services offered by High Speed Access Corp. and any browser, website, ISP or similar service that Go2Net sponsors or provides content to. Under the agreement, Commtouch hosts, serves and maintains the email, calendaring and other services and Go2Net sells advertising to be displayed in the products and services. Go2Net will pay Commtouch a share of revenues from advertising generated from email, calendaring or other services and related upgrades provided by Commtouch for Go2Net's users. The agreement between Commtouch and Go2Net has a three year duration, but Go2Net has the right on each anniversary to terminate the agreement. Go2Net also has the right to terminate the agreement if there are technical problems with the products or services provided by Commtouch. The performance specifications set forth in the agreement include requiring us to maintain certain levels of email system availability and response time, as well as technical support to Go2Net's email end users and to Go2Net, among other things.

In connection with entering into the email services agreement, we issued to Go2Net a warrant to purchase 1,136,000 ordinary shares at an exercise price of \$12.80 per share. The warrant is non-forfeitable, fully vested and immediately exercisable, and will expire five years from the date of the email service agreement.

Concurrent with our entering into the email services agreement, we issued \$13.3 million in ordinary shares to Go2Net and \$6.7 million in ordinary shares to Vulcan Ventures in a private placement at \$14.88 per share. Pursuant to the share purchase agreement, Go2Net and Vulcan Ventures have the right to name one director to our board as long as they continue to hold at least 25% of the combined number of shares purchased by them in the private placement and the shares issuable to Go2Net upon exercise of the warrant. Mr. Camp was appointed to the board pursuant to that agreement. In connection with this transaction, we agreed to pay U.S. Bancorp Piper Jaffray an advisory fee of \$550,000 under the terms of an engagement letter agreement dated as of July 5, 1999.

We agreed to register the shares and warrant described above promptly after the closing of the initial public offering. The registration statement became effective on January 7, 2000.

#### **Ordinary Share Financings**

Mr. Yiftah Atir, a director of Commtouch, is a Managing Director of Evergreen Canada Management Ltd., the general partner of Harbour Vest-Evergreen L.P.

Pursuant to several Share Purchase Agreements we issued and sold ordinary shares to Evergreen Canada Israel Investments and Company Ltd., Yarok Ad Fund Investment Partnership L.P. and Gmul Investment Company Ltd (the "Evergreen Investors"). These shares were subsequently converted into Series A Convertible Preferred Shares and certain of these shares were transferred to HarbourVest-Evergreen L.P.

### **Preferred Share Financings**

Mr. Yair Safrai, a director of Commtouch, is a Managing Partner of Concord Ventures, which manages the Concord Funds (as defined below). Pursuant to Preferred Share Letter Agreements entered into in December 1998 and February 1999, we issued and sold (i) 41,570 Series C Convertible Preferred Shares to

k.t. Concord Venture Fund (Cayman) L.P., k.t. Concord Venture Fund (Israel) L.P., k.t. Concord Venture Advisors (Cayman) L.P. and k.t. Concord Venture Advisors (Israel) L.P. (the "Concord Funds"), for a total investment of approximately \$3.0 million; (ii) 16,249 Series C Convertible Preferred Shares to IGF for a total investment of approximately \$1.2 million; and (iii) 12,779 Series C Convertible Preferred Shares to GIF for approximately \$922,000.

### **Option Exercises and Purchases of Shares Subject to Repurchase By Certain Officers**

Gideon Mantel is the Chief Executive Officer and a Director of Commtouch. On March 17, 1999, Mr. Mantel exercised certain options granted to him by Commtouch. In consideration for the ordinary shares purchased pursuant to the exercise of the options, he provided Commtouch with a full-recourse promissory note dated March 17, 1999 in the original principal amount of \$341,272. The promissory note bears interest at 4.83% annually, with payments of interest only due on March 17 of each year and with the balance due and payable on the fourth anniversary of the date of the promissory note. This loan was used by Mr. Mantel to purchase 286,120 ordinary shares of Commtouch at a weighted average purchase price of \$1.19 per share. The promissory note is collateralized by a pledge of the stock purchased. The outstanding principal amount of the note as of February 29, 2000 is \$341,272.

Isabel Maxwell is the President of Commtouch Software, Inc. On March 17, 1999, Ms. Maxwell exercised certain options granted to her by Commtouch. As consideration for the ordinary shares purchased pursuant to the exercise of the options, she provided Commtouch with a full-recourse promissory note dated March 17, 1999 in the original principal amount of \$295,858. The promissory note bears interest at 4.83% annually, with payments of interest only due on March 17 of each year and with the balance due and payable on the fourth anniversary of the date of the promissory note. This loan was used by Ms. Maxwell to purchase 204,040 ordinary shares of Commtouch at a purchase price of \$1.45 per share. The promissory note is collateralized by a pledge of the stock purchased. The outstanding principal amount of the note as of February 29, 2000 is \$295,858.

James Collins is the Chief Financial Officer of Commtouch. On February 1, 2000, Mr. Collins exercised certain options granted to him by Commtouch. As consideration for the ordinary shares purchased pursuant to the exercise of the options, Mr. Collins provided Commtouch with a full-recourse promissory note dated February 1, 2000 in the original principal amount of \$1,066,890. The promissory note bears interest at 6.56% annually, with payments of interest only due on February 1 of each year and with the balance due and payable on the fourth anniversary of the date of the promissory note. This loan was used by Mr. Collins to purchase 30,000 ordinary shares of Commtouch at a purchase price of \$35.36 per share. The promissory note is collateralized by a pledge of the stock purchased. The outstanding principal amount of the note as of May 31, 2000 is \$137,112. On March 17, 1999, Mr. Collins exercised certain options granted to him by Commtouch. As consideration for the ordinary shares purchased pursuant to the exercise of the options, Mr. Collins provided Commtouch with a full-recourse promissory note dated March 17, 1999 in the original principal amount of \$137,112. The promissory note bears interest at 4.83% annually, with payments of interest only due on March 17 of each year and with the balance due and payable on the fourth anniversary of the date of the promissory note. This loan was used by Mr. Collins to purchase 94,560 ordinary shares of Commtouch at a purchase price of \$1.45 per share. The promissory note is collateralized by a pledge of the stock purchased. The outstanding principal amount of the note as of February 29, 2000 is \$137,112.

Dr. Nahum Sharfman was a co-founder of Commtouch and served as a director and Chairman of the Board of Directors of Commtouch from inception until January 1999. Dr. Sharfman rejoined the board of directors in April 2000. Dr. Sharfman also served as the Chief Executive Officer of Commtouch until March 31, 1998. Dr. Sharfman rejoined the Board as a director in March 2000. On December 31, 1995, Commtouch made a loan of approximately \$58,000 to Dr. Sharfman. The loan plus linkage to the Israeli Consumer Price Index was to have been repaid within three years, or within 30 days of the termination of Dr. Sharfman's employment, if earlier. At December 31, 1998 the outstanding balance of this loan was approximately \$55,000, payable in NIS.

In 1997 Dr. Sharfman established DealTime.com Ltd. (formerly known as Papricom), together with Mr. Amir Ashkenazi, a former employee of Commtouch.

During an interim period in which Commtouch and DealTime.com Ltd. were negotiating a technology exchange agreement, which ultimately was not signed, Commtouch provided DealTime.com Ltd. with certain services (office and secretarial services, computers and other facilities including, without limitation, all payments made for or on behalf of DealTime.com Ltd.) and access to certain of Commtouch's technology. At the request of DealTime.com Ltd., Commtouch also entered into a Product Distribution Agreement (the "Stock Alert Agreement") with News Alert Inc. DealTime.com has provided technical support and services to News Alert Inc. in connection with the Stock Alert Agreement. Commtouch has entered into three agreements to clarify the rights and obligations of Commtouch, DealTime.com, Dr. Sharfman and Mr. Amir Ashkenazi.

Under the first agreement, Dr. Sharfman and Mr. Ashkenazi acknowledge that Commtouch is the sole owner of all of their inventions invented during their employment with Commtouch and for two years following the termination of their employment, which inventions relate to Commtouch's business and research activities as of April 1, 1998 (except in the field of e-commerce). They also acknowledge Commtouch's rights to inventions that result from work that they performed for Commtouch at any time, or which are the subject matter of a specified patent application. Dr. Sharfman and Mr. Ashkenazi also agreed not to compete with Commtouch's actual business and research activities as they were on April 1, 1998 (except in the field of e-commerce), through March 31, 2000.

The second agreement, which is between Commtouch and DealTime.com Ltd., confirms that DealTime.com Ltd. shall be solely responsible for all obligations of Commtouch under the Stock Alert Agreement. DealTime.com Ltd. also acknowledges that Commtouch is the sole owner of the Multimedia Desktop Software Technology that Commtouch developed and that was licensed to News Alert Inc., and Commtouch grants DealTime.com Ltd. a royalty-free, non-exclusive, limited license to use that technology to provide support services under the Stock Alert Agreement. DealTime.com Ltd. also agreed to pay \$50,000 to Commtouch for all of the services rendered by Commtouch and for the license fees that DealTime.com Ltd. received under the Stock Alert Agreement, and to divide any future revenues and license fees received under the Stock Alert Agreement equally with Commtouch. Commtouch, for its part, waived any claim to an equity interest in DealTime.com Ltd., and agreed that it does not own intellectual property developed by DealTime.com Ltd. other than in breach of the agreements with DealTime.com Ltd. and Messrs. Sharfman and Ashkenazi.

Finally, Commtouch and Dr. Sharfman entered into a Termination of Employment Agreement requiring the repayment by Dr. Sharfman of Commtouch's loan to him by December 31, 1999 and the release to Dr. Sharfman of funded and unfunded severance pay within 20 days of the date of approval of the Termination of Employment Agreement by our shareholders and containing a waiver by Dr. Sharfman of any rights under stock options that were granted to him. Dr. Sharfman repaid the loan and Commtouch released the severance payments in the third quarter of 1999.

#### **Loan to Amir Lev**

Amir Lev has been a director and executive officer of Commtouch since its inception in 1991. In 1999, Mr. Lev exercised options for Commtouch ordinary shares. We loaned him \$364,000 so that he could make an estimated tax payment in

connection with this option. This full recourse loan was linked to the Israeli Consumer Price Index and interest accrued at a rate of 2% per annum. The loan was repaid in full on February 10, 2000.

In accordance with the Israeli Companies Law, the Company's Board of Directors or its shareholders approved each of the affiliated transactions described in this Item 13.

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (333-94995) pertaining to the 1996 CSI Stock Option Plan, the 1999 Section 3(i) Share Option Plan, the 1999 Employee Stock Purchase Plan and the 1999 Nonemployee Directors Stock Option Plan of Commtouch Software Ltd. of our report dated January 31, 2000 with respect to the consolidated financial statements and schedule of Commtouch Software Ltd. included in its Annual Report on Form 20-F for the year ended December 31, 1999, as amended by Amendment No. 2, filed with the Securities and Exchange Commission.

Tel-Aviv, Israel  
November 28, 2000

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### SIGNATURES

Pursuant to the requirements of Section 12 of the Securities and Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this amendment to annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

### COMMTOUCH SOFTWARE LTD.

By: /s/ JAMES E. COLLINS

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James E. Collins  
Chief Financial Officer

November 28, 2000

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**End of Filing**

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