KURLAND STANFORD L
Form 4
November 28, 2017

FORM 4

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

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
KURLAND STANFORD L

(Last) (First) (Middle)

C/O PENNYMAC FINANCIAL SERVICES, INC., 3043 TOWNSGATE ROAD

(Street)

WESTLAKE VILLAGE, CA 91361

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PENNYMAC FINANCIAL SERVICES, INC. [PFSI]

3. Date of Earliest Transaction (Month/Day/Year)
11/27/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Chairman

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class A Common Stock	11/27/2017		S		11,702 (1)	D	$ 20	0	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Cl A Units of Private Nat'l Mortgage Acceptance Company, LLC (2)	(2)							(2)	(2)	Class A Common Stock	284,348
Cl A Units of Private Nat'l Mortgage Acceptance Company, LLC (2)	(2)							(2)	(2)	Class A Common Stock	8,314,99
Nonstatutory Stock Option (Right to Buy)	$ 21.03							06/13/2014	06/12/2023	Class A Common Stock	107,656 (4)
Nonstatutory Stock Option (Right to Buy)	$ 17.26							02/26/2015	02/25/2024	Class A Common Stock	191,098 (5)
Nonstatutory Stock Option (Right to Buy)	$ 17.52							03/03/2016	03/02/2025	Class A Common Stock	161,529 (6)
Nonstatutory Stock Option (Right to Buy)	$ 11.28							03/07/2017	03/06/2026	Class A Common Stock	188,086 (7)
Nonstatutory Stock Option (Right to Buy)	$ 18.05							03/06/2018	03/05/2027	Class A Common Stock	138,504 (8)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KURLAND STANFORD L C/O PENNYMAC FINANCIAL SERVICES, INC. 3043 TOWNSGATE ROAD WESTLAKE VILLAGE, CA 91361	X		Executive Chairman	

Signatures

/s/ Derek W. Stark, attorney-in-fact for Mr. Kurland	11/28/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These shares of Class A Common Stock were sold pursuant to a 10b5-1 plan.

(2) Pursuant to the terms of an exchange agreement, Class A Units of Private National Mortgage Acceptance Company, LLC are exchangeable for shares of Class A Common Stock of PennyMac Financial Services, Inc. on a one-for-one basis, subject to customary conversion rate adjustments, from and after the closing of PennyMac Financial Services, Inc.'s initial public offering.

(3) These securities are held by Kurland Family Investments, LLC, of which Mr. Kurland is the sole manager. Mr. Kurland disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein, and the inclusion of these shares in this report shall not be deemed an admission of beneficial ownership of all of the reported shares for purposes of Section 16 or for any other purpose.

(4) This nonstatutory stock option to purchase 107,656 shares of Class A Common Stock of the Issuer will vest as to one-third of the optioned shares on each of June 13, 2014, 2015 and 2016, subject to the Reporting Person's continued service through each date.

(5) This nonstatutory stock option to purchase 191,098 shares of Class A Common Stock of the Issuer will vest as to one-third of the optioned shares on each of February 26, 2015, 2016 and 2017, subject to the Reporting Person's continued service through each date.

(6) This nonstatutory stock option to purchase 161,529 shares of Class A Common Stock of the Issuer will vest as to one-third of the optioned shares on each of March 3, 2016, 2017 and 2018, subject to the Reporting Person's continued service through each date.

(7) This nonstatutory stock option to purchase 188,086 shares of Class A Common Stock of the Issuer will vest as to one-third of the optioned shares on each of March 7, 2017, 2018 and 2019, subject to the Reporting Person's committed service through each date.

(8) This nonstatutory stock option to purchase 138,504 shares of Class A Common Stock of the Issuer will vest as to one-third of the optioned shares on each of March 6, 2018, 2019 and 2020, subject to the Reporting Person's committed service through each date.

 ign="right" valign="bottom" width="9%" style="BORDER-BOTTOM: black 2px solid">28 7 (2,404)

Net income
$2,109 $2,270 $5,160

Basic net earnings per share
$0.08 $0.09 $0.21

Diluted net earnings per share
$0.08 $0.08 $0.20

Weighted average number of shares used in computing basic net earnings per share
24,846,690 25,618,933 24,531,810

Weighted average numbers of shares used in computing diluted net earnings per share
27,591,498 26,929,407 25,291,517

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

F-6

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares	Ordinary shares amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income *)	Accumulated deficit	Total comprehensive income	Total
Balance as of January 1, 2007	24,011,155	$ 845	$ 177,095	$ -	$ 23	$ (170,470)		$ 7,493
Issuance of shares upon exercise of options and warrants	1,334,887	48	1,615	-	-	-		1,663
Stock-based compensation related to employees	-	-	1,015	-	-	-		1,015
Stock-based compensation related to options granted to non-employees	-	-	68	-	-	-		68
Net income	-	-	-	-	-	2,109	$ 2,109	2,109
Total comprehensive income							$ 2,109	
Balance as of December 31, 2007	25,346,042	893	179,793	-	23	(168,361)		12,348
Purchase of treasury shares	(706,078)	(28)	-	(1,306)	-	-		(1,334)
Issuance of shares upon exercise of options and warrants	566,695	25	819	-	-	-		844
Stock-based compensation related to employees	-	-	1,495	-	-	-		1,495
Stock-based compensation related to options granted to non-employees	-	-	37	-	-	-		37

Net income	-	-	-	-	-	2,270	$ 2,270	2,270
Total comprehensive income							$ 2,270	
Balance as of December 31, 2008	25,206,659	890	182,144	(1,306)	23	(166,091)		15,660
Purchase of treasury shares	(1,457,748)	(56)	-	(3,482)	-	-		(3,538)
Issuance of shares upon exercise of options	209,850	8	210	-	-	-		218
Stock-based compensation related to employees	-	-	1,345	-	-	-		1,345
Stock-based compensation related to options granted to non-employees	-	-	32	-	-	-		32
Net income	-	-	-	-	-	5,160	$ 5,160	5,160
Total comprehensive income							$ 5,160	
Balance as of December 31, 2009	23,958,761	$ 842	$ 183,731	$ (4,788)	$ 23	$ (160,931)		$ 18,877

*) Relates to foreign currency translation adjustments

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

F-7

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2007	2008	2009
Cash flows from operating activities:			
Net income	$ 2,109	$ 2,270	$ 5,160
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	397	466	491
Compensation related to options granted to employees and non-employees	1,083	1,532	1,377
Increase in deferred income taxes	-	-	(2,404)
Changes in assets and liabilities:			
Increase in trade receivables	(540)	(504)	(318)
Increase in prepaid expenses and other accounts receivable	(107)	(46)	(271)
Increase (decrease)in accounts payable	24	(69)	112
Increase (decrease) in employees and payroll accruals, accrued expenses and other liabilities and government authorities	279	(198)	261
Increase (decrease) in deferred revenues	861	(459)	706
Increase (decrease) in accrued severance pay, net	11	27	(32)
Other	(2)	-	-
Net cash provided by operating activities	4,115	3,019	5,082
Cash flows from investing activities:			
Change in short-term cash deposit	(1,600)	860	740
Decrease (increase) in long-term lease deposits	(20)	(31)	1
Sale of marketable securities	-	-	2,000
Investment in affiliate	(750)	-	(477)
Purchase of property and equipment	(605)	(504)	(412)
Net cash provided by (used in) investing activities	(2,975)	325	1,852
Cash flows from financing activities:			
Purchase of treasury shares at cost	-	(1,334)	(3,538)
Proceeds from options and warrants exercised	1,663	844	218
Net cash provided by (used in) financing activities	1,663	(490)	(3,320)
Increase in cash and cash equivalents	2,803	2,854	3,614
Cash and cash equivalents at the beginning of the year	8,004	10,807	13,661
Cash and cash equivalents at the end of the year	$ 10,807	$ 13,661	$ 17,275

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

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

		Year ended December 31,		
		2007	2008	2009
(a)	Non-cash transactions:			
	Purchase of property and equipment - trade payables	$ (33)	$ (13)	$ (9)
Supplemental cash flow activities:				
Cash paid during the year for:				
	Income taxes	$ 20	$ -	$ -

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

F-9

U.S. dollars in thousands, except share and per share data

NOTE 1: GENERAL

a. Commtouch Software Ltd. ("Commtouch" or the Company") was incorporated under the laws of Israel in 1991. The Company and its subsidiary (Commtouch Inc.) develop and provide messaging and Web security solutions to OEM partners and enterprises. The Company's business is to develop and sell, through a variety of third party distribution channels, these solutions to various customers. The Company's messaging solutions are comprised of anti-spam, Zero-Hour anti-virus and GlobalView Mail Reputation solutions, and its Web security solution is known as GlobalView URL filtering.

b. The Company expects that it will continue to be dependent upon third-party distribution channels for a significant portion of its revenues, which are expected to be derived from sales of the Company's anti-spam, anti-virus, IP reputation and URL filtering solutions.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

a. Use of estimates:

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U. S. dollars:

A majority of the revenues of the Company and its subsidiary is generated in United States dollars ("dollars"). In addition, a substantial portion of their costs is incurred or denominated in dollars. The Company's management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiary operate. Thus, the dollar is their functional and reporting currency. Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars, in accordance with ASC Topic 830, "Foreign Currency Matters". All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the statements of operations as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All inter-company balances and transactions have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less when purchased.

F-10

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Short-term bank deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term bank deposits. Such short-term bank deposits are stated at cost.

f. Marketable securities:

In 2008, the Company classified its marketable securities in accordance with ASC 320, "Investments-Debt and Equity Securities" ("ASC 320"), as available-for-sale. The marketable securities that are held for the short-term and available for immediate sale were stated at quoted market prices at balance sheet date. The Company's marketable securities consisted of highly-rated auction rate (AAA) securities ("ARS") which were federal backed student loan securities. Available-for-sale securities were carried at fair value, with the unrealized gains and losses, reported in "accumulated other comprehensive income (loss)" in shareholders' equity.

Commencing February 2008, all of the Company's ARSs (comprised of five securities) suffered from failed auctions. On January 5, 2009, all of the Company's marketable securities were purchased by the bank at full par value amounting to a total of $ 2,000 and by agreeing to the settlement with the bank, the Company essentially stated that it no longer had the intent of holding the ARSs until recovery, as it would recover any unrealized loss through the settlement offer and, accordingly, the ARSs were classified as trading securities as of December 31, 2008.

g. Investment in affiliate:

For the purposes of these financial statements, an affiliated company is a company held to the extent of 20% or more, or a company less than 20% held, in which the Company can exercise significant influence over operating and financial policy of the affiliate. For the year ended December 31, 2007, the investment in an affiliated company (Imatrix) is accounted for under the equity method in accordance with ASC 323 "Investments—Equity Method". Profits on inter-company sales not realized outside the group were eliminated.

As of December 31, 2007, the Company lacks the ability to exercise significant influence over operating and financial policies of Imatrix and, accordingly, the investment is accounted for on a cost basis.

In November 2007 and April 2009, the Company made a $ 750 and $ 477, respectively, cash investment in Mirapoint Inc. ("Mirapoint"), a secure messaging vendor and an OEM licensee. The investment in an affiliated company is accounted for under the cost method since the Company cannot exercise significant influence over the operating and financial policies of Mirapoint.

The Company's investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. As of December 31, 2009, no impairment losses have been identified.

F-11

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers and peripheral equipment	33.33
Office furniture and equipment	7 – 20
Motor vehicles	15
Leasehold improvements	Over the shorter of the term of the lease or the life of the assets

i. Impairment of long-lived assets:

The Company and its subsidiary's long-lived assets are reviewed for impairment in accordance with ASC 360 "Property, Plant and Equipment", 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 assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment losses were recorded in 2007 through 2009.

j. Fair value measurements

Concurrently with the adoption of ASC 820, the Company adopted ASC Topic 825, "Financial Instruments," ("ASC 825") which permits entities to elect, at specified election dates, to measure eligible financial instruments at fair value. As of December 31, 2009, the Company did not elect the fair value option under ASC 825 for any financial assets and liabilities that were not previously measured at fair value.

The carrying amounts of cash and cash equivalents, marketable securities, trade receivables, prepaid expenses, other accounts receivable and accounts payable, approximate their fair values due to the short-term maturities of financial instruments.

k. Revenue recognition:

The Company derives revenues from Anti-Spam, Zero-Hour™ Virus Outbreak Protection, GlobalView Mail Reputation and GlobalView URL filtering Services. The service component of the Company's solutions is considered essential to the functionality of the software components. Furthermore, the software components can not be effectively used on a standalone basis, or with a third party's service. The customer has no ability to effectively run the software or the Software Development Kit ("SDK") on its own hardware. As the software portion of the product cannot effectively stand on its own, the Company considers each sale as a service arrangement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Therefore, revenues from such services are recognized over the service term, which generally includes a term period of one to three years.

Revenue is recognized in accordance with ASC 605, "Revenue Recognition", when the earnings process is complete, as evidenced by an agreement between the customer and the Company, when delivery has occurred or services have been rendered, when the fee is fixed or determinable and when collectability is probable.

Deferred revenues include unearned amounts received from customers, but not yet recognized as revenues.

l. Research and development costs:

ASC 985-20, "Costs of Software to be Sold, Leased or Marketed", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working models and the point at which the products are ready for general release, have been insignificant. Therefore, all research and development costs have been expensed.

m. Government grants:

Royalty-bearing grants from the Government of Israel for funding certain approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the related costs incurred and recorded as a deduction of research and development costs. Research and development grants from the Government of Israel amounted to $ 263, $0 and $0 in 2009, 2008 and 2007, respectively

n. Concentrations of credit risk:

The Company and its subsidiary have no significant off-balance-sheet concentration of credit risk.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables and cash and cash equivalents. The majority of the Company's short-term deposits and cash and cash equivalents are invested in dollars and dollar linked investments and are deposited in major banks in the United States and Israel. Such investments in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these investments.

The trade receivables of the Company are derived from transactions with companies located primarily in North America, Europe, Israel and Asia. An allowance for doubtful accounts is determined with respect to those amounts that the Company and its subsidiary have determined to be doubtful of collection. The allowance for doubtful accounts was $ 0 at December 31, 2008 and 2009. Bad debt expense for each of the years ended December 31, 2007, 2008 and 2009 was $ 0.

F-13

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Accounting for stock-based compensation:

ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated income statements.

The Company applies ASC 718, and ASC 505-50, "Equity Based Payments to Non-Employees" ("ASC 505-50"), with respect to options and warrants issued to non-employees. ASC 718 requires the use of an option valuation model to measure the fair value of the options and warrants at the measurement date as defined in ASC 505-50.

The Company recognizes compensation expense for the value of its awards on a straight line basis over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

The fair value for options granted in 2007, 2008 and 2009 is estimated at the date of grant using a Black-Scholes options pricing model with the following weighted average assumptions:

	Year ended December 31,		
Employee stock options	2007	2008	2009
Volatility	70%	80%	82%
Risk-free interest rate	3.76%-4.94%	1.79%-2.79%	1.34%-1.61%
Dividend yield	0%	0%	0%
Expected life (years)	4.08	3.03	3.35

p. Basic and diluted net earnings per share:

Basic and diluted net earnings per share are presented in accordance with ASC Topic 260, "Earnings per Share", for all periods presented.

Explanation of Responses:

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Basic net earnings per share have been computed using the weighted-average number of Ordinary shares outstanding during the year. Diluted net earnings per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus the weighted average number of dilutive potential Ordinary shares considered outstanding during the year.

In 2007, 2008 and 2009, the difference between the denominator of basic and diluted net earnings per share is due to the effect of dilutive securities for stock options and warrants. In 2007, 2008 and 2009 363,133 ,1,563,038 and 2,584,732, respectively, weighted average number of shares related to options and warrants outstanding were excluded from calculation of the diluted earnings per share since they would have an anti-dilutive effect.

q. Severance pay:

The Company's liability for severance pay in Israel is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's obligation for all of its Israeli employees is fully provided by monthly deposits with severance pay funds and insurance policies, and by an accrual. The value of those funds and policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits and losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies.

Severance (income) expense for the years ended December 31, 2007, 2008 and 2009 was approximately $ 11, $ 26 and $ (31), respectively.

r. Treasury shares:

The Company repurchases its Ordinary shares from time to time on the open market and holds such shares as Treasury shares. The Company presents the cost to repurchase Treasury shares as a reduction in shareholders' equity.

s. Income taxes:

The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes" ("ASC 740"). ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between 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 provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized.

Deferred tax assets are classified as current or non-current based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting.

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ASC 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. No liability for unrecognized tax benefits was recorded as a result of the implementation of ASC 740.

t. Recently issued accounting pronouncements:

In June 2009, the FASB issued ASC 105, "Generally Accepted Accounting Principles" ("ASC 105"). ASC 105 establishes the FASB Accounting Standards Codification, which will become the source of authoritative U.S. GAAP recognized by the FASB. Following this statement, the FASB will issue new standards in the form of Accounting Standards Updates ("ASUs"). ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of ASC 105did not have any impact on the Company's financial statements, as it does not modify GAAP, except for the specific references to GAAP literature in the notes to the Company's consolidated financial statements.

In October 2009, the FASB issued an update to ASC 985-605, "Software-Revenue Recognition" (originally issued as EITF 09-3). In accordance with the update to the ASC, tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality are excluded from the scope of the software revenue recognition guidance. In addition, hardware components of a tangible product containing software component are always excluded from the software revenue guidance. The mandatory adoption is on January 1, 2011. The Company may elect to adopt the update prospectively, to new or materially modified arrangements beginning on the adoption date, or retrospectively, for all periods presented. In such case the Company must also early adopt the amendment to ASC 605-25 with respect to multiple-elements arrangements. The Company does not expect the adoption of the update to have a material impact on its consolidated financial condition or results of operations.

In October 2009, the FASB issued an update to ASC 605-25, "Revenue recognition - Multiple-Element Arrangements", that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements to:

- Provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

- Require an entity to allocate revenue in an arrangement using estimated selling prices ("ESP") of deliverables if a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third-party evidence of selling price ("TPE"); and

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

- Require expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance.

The Company may elect to adopt the update prospectively, to new or materially modified arrangements beginning on the adoption date, or retrospectively, for all periods presented. The Company is currently evaluating the impact on its consolidated results of operations and financial condition.

NOTE 3: PROPERTY AND EQUIPMENT

	December 31	
	2008	2009
Cost:		
Computers and peripheral equipment	$ 2,846	$ 3,224
Office furniture and equipment	605	614
Motor vehicles	88	88
Leasehold improvements	1,157	1,191
	4,696	5,117
Less accumulated depreciation	(3,925)	(4,416)
Property and Equipment, net	$ 771	$ 701

Depreciation expense amounted to approximately $ 397, $ 466 and $ 491 in 2007, 2008 and 2009, respectively.

NOTE 4: COMMITMENTS AND CONTINGENCIES

a. Commtouch Software Ltd. which is incorporated in Israel, partially financed its research and development expenditures under programs sponsored by the Office of Chief Scientist ("OCS") for the support of certain research and development activities conducted in Israel.

In connection with its research and development, the Company received and accrued participation payments from the OCS in the aggregate amount of $ 263. In return for the OCS's participation, the Company is committed to pay royalties at a rate of 3% of sales of the developed product, up to 100% of the amount of grants received (100% plus interest at LIBOR). The Company's total commitment for royalties payable with respect to future sales, based on OCS participations received or accrued, net of royalties paid or accrued, totaled approximately $ 255 as of December 31, 2009. For the years ended December 31, 2009 and 2008, the amounts of $ 8 and $ 0, respectively, were recorded as cost of revenues with respect to royalties due to the OCS.

F-17

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 4: COMMITMENTS AND CONTINGENCIES (Cont.)

b. Operating leases:

The Company leases its facility in Israel under an operating lease agreement expiring on December 31, 2010. The subsidiary leases its facility in the U.S. under an operating lease agreement expiring on February 28, 2011.

Facilities rent expense for 2007, 2008 and 2009 was approximately $ 164, $ 202 and $ 259, respectively.

Annual minimum future lease payments due under the above agreements (and motor vehicle leases, which expire in 2012), at the exchange rate in effect on December 31, 2009, are approximately as follows:

2010	$	478
2011		116
2012		18
	$	612

NOTE 6: SHAREHOLDERS' EQUITY

a. General:

The Ordinary shares of the Company have been traded on the Nasdaq National Market (now known as the Nasdaq Global Market) and Nasdaq Capital Market (formerly The NASDAQ SmallCap Market), since July 1999 and 2002, respectively.

On December 16, 2009, the Company's Ordinary shares became listed for trading publicly on the Tel Aviv Stock Exchange, or "TASE", thus becoming a "dual listed" company.

The Ordinary shares confer upon their holders the right to receive notice to participate and vote in general shareholder meetings of the Company and to receive dividends, if declared. In January 2008, the Board of Directors and shareholders approved a 3:1 reverse stock split of the Company's share capital. As a result of this action, every three shares (including all authorized, issued and outstanding shares and all outstanding warrants and options to purchase shares) were combined into one share of the same respective class of shares bearing a par value of NIS 0.15 each.

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 6: SHAREHOLDERS' EQUITY (Cont.)

b. Warrants to investors:

As of December 31, 2009, the Company's outstanding warrants issued to various parties were as follows:

Issuance date	Warrants granted for Ordinary shares		Exercise price per share	Remaining warrants exercisable	Exercisable through
October 2005	500,000	$	1.95	458,333	October 2010
May 2006	23,364	$	3.21	23,364	May 2011
Total	523,364			481,697	

c. Employee stock options:

In 1996, the Company adopted the 1996 CSI Stock Option Plan for granting options to its U.S. employees and consultants to purchase Ordinary shares of the Company, which was replaced in 2006 by the 2006 U.S. Stock Option Plan. Until 1999, the Company issued options to purchase Ordinary shares to its Israeli employees pursuant to individual agreements. In 1999, the Company approved the 1999 Section 3(i) share option plan for its Israeli employees and consultants, (which was amended in 2003 and renamed the "Amended and Restated Israeli Share Option Plan"). As of December 31, 2009, an aggregate of 845,200 Ordinary shares of the Company are still available for future grant to employees and directors.

Options granted under such plans and agreements up to September 2005, expire generally after ten years from the date of grant, with grants from September 2005 having six-year terms from the date of grant. Options cease vesting upon termination of the optionee's employment or other relationship with the Company. The options generally vest over a period of four years. The exercise price of the options granted under the individual agreements may not be less than the nominal value of the shares into which such options are exercisable. Any options that are canceled or not exercised within the option term become available for future grant.

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 6: SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's employees share option activity under the plans is as follows:

	Number of shares 2009	Weighted average exercise price 2009	Aggregate intrinsic value 2009
Outstanding at the beginning of the year	3,512,557	$ 2.69	$ 1,009
Granted	682,167	$ 2.57	
Exercised	(209,850)	$ 1.04	
Expired and Forfeited	(245,006)	$ 3.96	
Outstanding at the end of the year	3,739,868	$ 2.67	*) $ 4,966
Options vested and expected to vest at the end of the year	3,601,244	$ 2.65	$ 4,852
Exercisable options at the end of the year	2,413,521	$ 2.35	$ 3,771
Weighted average fair value of options granted during the year		$ 1.54	

*) 885,822 options were out of the money as of December 31, 2009, and their intrinsic value was $0.

The aggregate intrinsic value of the Company's options is the difference between the Company's closing share price on the last trading day of the fiscal year 2009 and the exercise price, times the number of options.

The options outstanding as of December 31, 2009, have been separated into ranges of exercise prices, as follows:

Exercise price per share	Options outstanding	Weighted average remaining contractual life in years	Weighted average exercise price per share	Options exercisable	Weighted average exercise price per share of exercisable options
$ 0.03-$0.27	111,606	1.62	$ 0.04	111,606	$ 0.04
$ 0. 33-$0.60	500,000	2.77	$ 0.35	500,000	$ 0.35

$ 0.81-$0.84	38,667	1.84	$	0.82	38,667	$	0.82
$ 0.93-$1.89	624,549	4.59	$	1.39	430,561	$	1.31
$ 1.93-$2.91	712,488	4.32	$	2.21	257,139	$	2.56
$ 3.12-$4.35	1,262,279	2.78	$	3.39	822,930	$	3.24
$ 4.69-$6.60	490,279	3.65	$	6.23	252,618	$	6.21
	3,739,868	3.44		2.67	2,413,521	$	2.35

F-20

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 6: SHAREHOLDERS' EQUITY (Cont.)

d. Non-employee directors stock option plan:

In 1999, the Company adopted the 1999 Non-Employee Directors Stock Option Plan, and in 2008 shareholders approved an extension of the term of this plan through July 13, 2019. The original allotment of shares to this plan was 1,263,333. On December 15, 2006, the Company combined the remaining pool of options in the employee stock option plans reserve with the amount of options remaining in the Non-Employee Directors Stock Option Plan reserve.

Since the annual meeting of shareholders in 2003 and up until December 31, 2008, new directors joining the Board are entitled to an option grant of 50,000 Ordinary shares. Directors who are re-elected at the annual meeting of shareholders are entitled to additional grants of 16,667 options, though at the annual meeting held October 26, 2009 shareholders approved a one-time increase in the grants to re-elected directors to 30,000 options.

Each option granted under the Non-Employee Directors Stock Option Plan becomes exercisable at a rate of 1/16th of the shares every three months. Each option has an exercise price equal to the fair market value of the Ordinary shares on the grant date of such option. Until September 2005, each option granted had a maximum term of ten years, but since September 2005, the term of granted options is six years. Options will terminate earlier if the optionee ceases to be a member of the Board of Directors.

During 2009, the Company granted 150,000 options to non-employee directors at a weighted average exercise price of $ 3.29 per share. Weighted average fair value of options granted during the year is $1.84. As of December 31, 2009, 286,440 options were vested and unexercised and 608,337 were outstanding under the Non-Employee Directors Stock Option Plan.

e. Options to non-employees:

Issuance date	Options granted for Ordinary Shares	Exercise price per share	Options exercisable	Exercisable through
May 2006-2008 (i)	83,334	$3.21-$5.73	60,414	May 2013
Total	83,334		60,414	

(i) As a consideration for consulting services, on May 7, 2006 the Company issued 50,000 options to a service provider to purchase the Company's Ordinary shares at a price of $ 3.21 per option. On May 5, 2007, the Company issued an additional 16,667 options to the service provider to purchase the Company's Ordinary shares at a price of $ 5.73 per option. On May 6, 2008, the Company issued an additional 16,667 options to purchase Ordinary shares to the service provider at a price of $ 3.85 per option. The options shall vest and become exercisable at a rate of 1/16 of the options every three months. The Company has accounted for this grant under the fair value method of ASC 505-50. The fair value for these options was estimated using a Black-Scholes option-pricing model. Compensation expense for 2007, 2008 and 2009 amounted to $ 70, $ 37 and $ 32, respectively.

f. The total unrecognized estimated compensation cost related to non-vested stock options granted until December 31, 2009 was $ 2,797 which is expected to be recognized over a period of up to four years.

U.S. dollars in thousands, except share and per share data

NOTE 6: SHAREHOLDERS' EQUITY (Cont.)

g. Total stock-based compensation expenses recognized in 2007, 2008 and 2009:

The total stock-based compensation expense related to all of the Company's equity-based awards, recognized for the year ended December 31, 2007, 2008 and 2009, was comprised as follows:

	Year ended December 31,		
	2007	2008	2009
Cost of revenues	$ 31	$ 45	$ 40
Research and development	246	319	302
Selling and marketing	194	298	300
General and administrative	612	870	735
	$ 1,083	$ 1,532	$ 1,377

NOTE 7: INCOME TAXES

a. Corporate tax structure:

Israeli companies are generally subject to company tax on their taxable income. The applicable rate is 29% in 2007, 27% in 2008, 26% in 2009, 25% in 2010, and scheduled to decline to 24% in 2011, 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015 and 18% in 2016 and thereafter.

b. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("CPI"). As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of ASC 740, the Company has not provided deferred income taxes on the difference between the functional currency and the tax bases of assets and liabilities. In February 2008, the inflationary adjustment law was cancelled.

c. Tax benefits under Israel's Law for the Encouragement of Industry (Taxation), 1969:

The Company may currently qualify as an "industrial company" within the definition of the Law for the Encouragement of Industry (Taxation), as such, it may be eligible for certain tax benefits, including, inter alia, special depreciation rates for machinery, equipment and buildings, amortization of patents, certain other intangible property rights and deduction of share issuance expenses.

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 7: INCOME TAXES (Cont.)

d. Net operating loss carryforwards:

As of December 31, 2009, the Company's net operating loss carryforwards for tax purposes amounted to approximately $ 76,000 which may be carried forward and offset against taxable income in the future, for an indefinite period.

As of December 31, 2009, for federal income tax purposes, the U.S. subsidiary had net operating loss carry-forwards of approximately $ 92,000. These losses may offset any future U.S. taxable income of the U.S. subsidiary and will expire in the years 2011 through 2025.

Utilization of 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 limitations may result in the expiration of net operating losses before utilization.

Management currently believes that since the Company has history of losses it is more likely than not that some of the deferred tax assets regarding the loss carry forwards will not be utilized in the foreseeable future. Thus, a valuation allowance was provided to reduce deferred tax assets to their realizable value.

e. Deferred income taxes:

Deferred 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. As of December 31, 2008 and 2009, the Company's deferred taxes were in respect of the following:

	December 31, 2008	December 31, 2009
Net operating loss carry-forwards	$ 54,522	$ 53,213
Reserves and allowances	226	274
Property and Equipment	50	52
Research and development costs	471	642
Deferred tax assets before valuation allowance	55,269	54,181
Valuation allowance	(55,269)	(51,777)
Deferred tax asset	$ -	$ 2,404
Domestic:		
Current deferred tax asset, net	$ -	$ 1,283
Non-current deferred tax asset, net	-	986
	-	2,269

Foreign:				
Current deferred tax asset, net				134
Non-current deferred tax asset, net		-		1
		-		135
	$	-	$	2,404

Current deferred tax asset, net, is included within other current assets in the balance sheets.

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 7: INCOME TAXES (Cont.)

f. For the years ended December 31, 2007 and 2008, the main reconciling items between the statutory tax rate of the Company and the effective tax rate are the non-recognition of the benefits from accumulated net operating loss carry forward due to the uncertainty of the realization of such tax benefits. For the year ended December 31, 2009, the main reconciling items between the statutory tax rate of the Company and the effective tax rate are the non-recognition of the benefits from accumulated net operating loss carry forward due to the uncertainty of the realization of such tax benefits, as well as recognition of a deferred tax asset of $2,404 in respect of net operating loss carry forwards and temporary differences that are more likely than not to be realized in the foreseeable future.

g. Income before taxes on income (tax benefit) consists of the following:

	Year ended December 31, 2007	2008	2009
Israel	$ 1,947	$ 2,011	$ 2,573
U.S.	190	266	183
	$ 2,137	$ 2,277	$ 2,756

The Company is required to calculate and account for income taxes in each jurisdiction in which the Company or its subsidiary operate. Significant judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities.

h. Taxes on income (tax benefit) are comprised of the following:

	Year ended December 31, 2007	2008	2009
Current taxes:			
Foreign	$ 28	$ 7	$ -
	$ 28	$ 7	$ -
Deferred taxes:			
Foreign	$ -	$ -	$ (135)
Domestic	-	-	(2,269)
	$ -	$ -	$ (2,404)

F-24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 7: INCOME TAXES (Cont.)

i. Tax assessments:

The Company has final tax assessments in Israel through 2003.

NOTE 8: GEOGRAPHIC INFORMATION

The Company conducts its business on the basis of one reportable segment. The Company has adopted ASC 280, "Segment Reporting".

a. Revenues from external customers:

	Year ended December 31, 2007	2008	2009
Israel	$ 742	$ 1,080	$ 1,544
North America	6,424	8,018	8,032
Europe	2,735	3,160	3,776
Asia	1,038	1,497	1,508
Other	311	337	329
	$ 11,250	$ 14,092	$ 15,189

For the years ended December 31, 2007, 2008 and 2009, there are no major customers.

b. The Company's net amount of long-lived assets is as follows:

	December 31 2008	2009
Israel	$ 175	$ 198
U.S.A.	596	503
	$ 771	$ 701

COMMTOUCH SOFTWARE LTD. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 9:- FINANCIAL INCOME, NET

	Year ended December 31,		
	2007	2008	2009
Income:			
Interest on cash and cash equivalents and short term deposit	$ 575	$ 434	$ 108
Capital gain on sale of marketable securities	-	-	38
Expenses:			
Foreign currency exchange differences	(46)	(81)	(74)
Other	(2)	(7)	(12)
	$ 527	$ 346	$ 60

NOTE 10: SUBSEQUENT EVENTS

On March 15, 2010, the Company announced that its board of directors authorized an additional plan for the repurchase of the Company's ordinary shares in the open market or through privately negotiated transactions, in an amount in cash of up to $5,000. The plan will commence immediately, and the term of the plan will be reviewed on a quarterly basis by the board of directors. Under the repurchase program, share purchases may be made from time to time depending on market conditions, share price, trading volume and other factors.

The repurchase program does not require the Company to acquire a specific number of shares and may be suspended from time to time or discontinued.

- - - - - - - - - - - - - - - - - - - -

Item 19. Exhibits.

The list of exhibits required by this Item is incorporated by reference to the Exhibit Index which precedes the exhibits to this report.

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.

COMMTOUCH SOFTWARE LTD.

By:	/s/ Ron Ela
	Ron Ela
	Chief Financial Officer
	March 26, 2010

Item 19. Exhibits

Exhibit Number	Description of Document
1.1	Memorandum of Association of the Company.(1)
1.2	Amended and Restated Articles of Association of the Company, as amended on December 14, 2007.(2)
4.1	Commtouch Software Ltd. 2006 U.S. Stock Option Plan.(3)
4.2	Amended and Restated Commtouch Software Ltd. 1999 Non–Employee Directors Stock Option Plan.(4)
4.3	Extension of Amended and Restated Commtouch Software Ltd. 1999 Non-Employee Directors Stock Option Plan.(5)
4.4	Commtouch Software Ltd. Amended and Restated Israeli Share Option Plan [successor plan to 1999 Section 3(i) Share Option Plan].(6)
4.5	Commtouch Software Ltd. Amended and Restated 1996 CSI Stock Option Plan.(7)
4.6	Amended and Restated 1999 Section 3(i) Share Option Plan.(8)
4.7	Summary of Director Compensation.
8	List of Subsidiaries of the Company.
12.1	Certification of Company's Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).
12.2	Certification of Company's Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).
13	Certification of Company's Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. 1350.
15	Consent of Kost, Forer, Gabbay & Kasierer, independent auditors.

---

(1) Incorporated by reference to exhibits in Amendment No. 1 to Registration Statement on Form F–1 of Commtouch Software Ltd., File No. 333–78531.

(2) Incorporated by reference to Exhibit 1.2 to Annual Report on Form 20–F for the year ended December 31, 2007.

(3) Incorporated by reference to Exhibit 99.4 to Registration Statement on Form S–8 No. 333–141177. [filed March 9, 2007]

(4)

Incorporated by reference to Exhibit 99.1 to Registration Statement on Form S–8 No. 333–141177. [filed March 9, 2007]

(5) Incorporated by reference to Exhibit 4.6 to Annual Report on form 20-F for the year ended December 31, 2008.

(6) Incorporated by reference to Exhibit 99.3 to Registration Statement on Form S–8 No. 333–141177. [filed March 9, 2007]

(7) Incorporated by reference to Exhibit 99.2 to Registration Statement on Form S–8 No. 333–141177. [filed March 9, 2007]

(8) Incorporated by reference to Exhibit 5 to Schedule TO, filed July 20, 2001.