

TOP IMAGE SYSTEMS LTD  
Form F-3  
October 22, 2004

As filed with the Securities and Exchange Commission on October 22, 2004.

Registration No. 333-\_\_\_\_\_

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM F 3**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**Top Image Systems Ltd.**

(Exact name of Registrant as specified in its charter)

**Israel**

(Jurisdiction of incorporation or organization)

**2 Habarzel Street, Ramat Hahayal, Tel Aviv 69710, Israel**

(Address of principal executive offices)

**TIS America, Inc.  
591 North Avenue, 3  
Lakeside Office Park  
Wakefield, MA 01880  
Phone (866) 254-5105**

(Name, address and telephone number of agent for service)

Copy of communications to:

**Joel L. Rubinstein, Esq.**

**McDermott Will & Emery LLP**

**50 Rockefeller Plaza**

**New York, New York 10020**

**Tel: (212) 547-5336**

**Fax: (212) 547-5444**

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

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If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box:

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CALCULATION OF REGISTRATION FEE

Title of each Class of Shares being Registered	Amount to be registered (1)	Proposed maximum offering price per share (3)	Proposed maximum aggregate offering price	Registration fee
Ordinary Shares (par value 0.04 NIS per share)	6,125,713(2)	\$3.065	\$18,775,310	\$2,379

(1) Pursuant to Rule 416 of the General Rules and Regulations under the Securities Act of 1933 (the Securities Act), the registration statement of which this prospectus is a part also registers a currently indeterminate number of additional shares of our ordinary shares that may be issued to prevent dilution resulting from stock splits, stock dividends, or similar transactions.

(2) Consisting of 4,863,525 ordinary shares held by the selling shareholders and 1,262,188 ordinary shares issuable to selling shareholders upon exercise of warrants held by selling shareholders.

(3) Determined solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low prices of the Registrant's ordinary shares as reported on the NASDAQ SmallCap Market on October 18, 2004 on which the high price was \$3.18 and low price was \$2.95. Because the ordinary shares may be offered from time to time by the selling shareholders described herein, the Registrant does not know the actual price or prices at which the ordinary shares may be offered.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON THE DATE OR DATES THAT MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THE REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON THE DATE THAT THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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THE INFORMATION IN THIS PRELIMINARY PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SECURITIES WHICH ARE INCLUDED IN THIS PRELIMINARY PROSPECTUS MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PRELIMINARY PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SOLICIT AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED OCTOBER 22, 2004

PRELIMINARY PROSPECTUS

**Top Image Systems Ltd.**

**6,125,713 Ordinary Shares**

This prospectus relates to the offering by the selling shareholders identified in this prospectus of up to a maximum of 6,125,713 ordinary shares of Top Image Systems Ltd.

Our ordinary shares are quoted on the NASDAQ SmallCap Market under the symbol TISA. The last reported sale price of our ordinary shares on the NASDAQ SmallCap Market on October 18, 2004 was \$3.08 per share.

**INVESTING IN THESE SECURITIES INVOLVES SUBSTANTIAL RISKS.**

**SEE RISK FACTORS BEGINNING ON PAGE 3.**

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is \_\_\_\_\_.

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**THE COMPANY**

Our legal and commercial name is Top Image Systems Ltd. We changed our name from T.i.S.-Top Image Systems (1991) Ltd. to its present name in July 1996. We were incorporated in Israel on March 26, 1991 as a company with a limited share capital subject to Israeli law. Our registered and principal executive offices are located in Israel at 2 Habarzel Street, Ramat Hahayal, Tel Aviv 69710, and our telephone number is +011-972-3-767-9100. Our Web site is located at <http://www.topimagesystems.com> (the information contained in our Web site is not a part of this prospectus or the registration statement of which this prospectus is a part and no portion of such information is incorporated herein).

**RISK FACTORS**

You should carefully consider the risks described below before making an investment decision regarding our ordinary shares. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our ordinary shares could decline due to any of these risks, and you may lose all or part of your investment.

***The market for data capture systems and automatic form processing systems is highly competitive.***

The market for data capture systems in general, and for automatic form processing systems in particular, is characterized by intense competition, significant price erosion over the life of the product, and rapidly changing business conditions, customer requirements, and technology. Our products compete with those developed and marketed by numerous well-established companies including Captiva Software, Mitek, Bancotec, Dicom, Microsystems Technology, Datacap, SER, and ReadSoft, as well as with manual data entry systems. Many of our competitors have longer operating histories and greater financial resources than we do. Furthermore, certain of these competitors are industry leaders with the financial resources necessary to enable them to withstand substantial price competition or downturns in the market for computer software. The fact that our resources are more limited places us at a significant disadvantage. This risk is particularly acute during difficult economic times such as the present.

***A slowdown in our customers' industry or a decline in economic conditions could adversely impact the sale of our products and our prospects of achieving or maintaining profitability.***

A slowdown in the industries into which we sell our products would likely result in significantly reduced product demand, erosion of selling prices and overcapacity. Such a downturn could materially reduce demand for the products and technology that we offer. In addition, our ability to reduce expenses in response to any downturn or slowdown in such industries may be limited because of:

- our continuing need to invest in research and development;
- our capital equipment requirements; and
- marketing requirements.

Since 2000, there has been a global recession and a resulting decline in economic conditions, and the markets for our products have been adversely affected. If general economic and industry conditions fail to materially improve, demand for our products could continue to be adversely affected, as could the financial health of our suppliers and resellers. In addition, the September 11, 2001 terrorist attacks on the United States and the subsequent military response, as well as the recent war in Iraq, have had, and may continue to have, a negative effect on the global economy and our business and that of our customers. Any similar acts of violence or war may further negatively affect our business environment, revenues and profitability and could also result in a disruption of our business or that of our customers.

***Our success depends on our strategic marketing relationships and the marketing and distribution efforts of our distributors and other strategic partners.***

Our business and prospects depend upon our ability to maintain our existing, and to develop additional, strategic marketing relationships and upon the marketing and distribution efforts of our distributors and other strategic partners. The loss or diminishment of our relationship with any one of our significant strategic partners could have a material and adverse effect on our existing operations and growth prospects. We intend to recruit additional distributors with established distribution channels and reputations for marketing and installing document imaging, data capture and workflow systems to market our products. We cannot assure you that we will be able to develop such relationships.

***Our lengthy sales cycle increases our exposure to customer cancellations or delays in orders, which may result in volatile quarterly revenues.***

Given the high average selling price of, and the cost and time required to implement, our solutions, a customer's decision to license our products typically involves a significant commitment of resources and is influenced by the customer's budget cycles and internal approval procedures for information technology purchases. In addition, selling our solutions requires us to educate potential customers about our solutions uses and benefits. As a result, our solutions have a long sales cycle, which can take 9 to 12 months or more. Consequently, we have difficulty predicting the quarter in which sales to expected customers may occur. The sale of our solutions is also subject to delays from the lengthy budgeting, approval and competitive evaluation processes of our customers, which typically accompany significant capital expenditures.

Our solutions require a sophisticated sales effort targeted at senior management of our prospective customers. New employees in our sales department require extensive training and typically take several months to achieve full productivity. There is no assurance that new sales representatives will ultimately become productive. If we were to lose qualified and productive sales personnel, our revenues could be adversely impacted.

***Our industry is marked by rapid technological changes and frequent new or updated product introductions, and if we do not respond to such rapid technological changes, new product introductions and enhancements and evolving industry standards, our products and services could become obsolete.***

Our ability to compete will depend upon our ability to offer products at competitive prices in a timely and cost-effective manner. Our product decisions must anticipate the changing demand for products. If we are unable to develop, modify and enhance our existing technology to respond to such changing demands, standards and customer demands, our business could be adversely affected. In addition, the development of new technologies, new product introductions or enhancements by our competitors could adversely affect our sales.

***We have had a history of losses and may incur future losses.***

Since our inception in March 1991, we have incurred net losses in every year other than in 1995, 1997 and 1998, and our losses may continue. For the year ended December 31, 2003, we had a net loss of \$604,047, and accumulated deficit of \$14,813,830. We plan to maintain the level of our aggregate product development expenses and may significantly increase our sales and marketing and administrative expenses in the near future. Accordingly, to maintain our current level of financial performance, we will need to increase or maintain our revenues. We cannot assure you that our revenues will grow or that we will achieve positive profitability in the future. Failure to increase revenues could result in a material adverse effect on our business, prospects and financial results.

***We have a history of quarterly fluctuations in our results of operations and expect these fluctuations to continue. This may cause our stock price to decline.***

We have experienced and expect to experience in the future significant fluctuations in our quarterly results of operations. Factors that may contribute to fluctuations in our quarterly results of operations include:

the size, timing and shipment of orders;



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customer deferral of orders in anticipation of new products, product upgrades or price enhancements;

the high level of competition that we encounter;

the timing of our product introductions, upgrades or enhancements or those of our competitors or of providers of complementary products; and

the purchasing patterns and budget cycles of our customers.

Fluctuations in our quarterly results could discourage investors and cause the market price of our ordinary shares to decline.

***We derive significant revenue from distributors or resellers of our products and default in payment by them could adversely affect us.***

A default in payment by one or more of our significant distributors or resellers could adversely affect our business, results of operations, and financial condition. Although we believe that we have made adequate reserves against our receivables, we cannot assure you that uncollected receivables will not exceed those reserves. If they do exceed our reserves in a significant manner, we could suffer a material adverse effect on our business, prospects, and financial results.

***Large customers constitute a significant portion of our orders and we may have difficulty in expanding our customer base in the future.***

Several large customers account for a significant part of our sales. For example, Swiss Post Finance, currently a reseller of our products, and Toyo Ink Manufacturing Co., Ltd., a reseller of our products until this year when we acquired certain assets from Toyo (see the section below entitled "Information About the Company - Competition"), accounted for 17% and 19% of our sales in 2003 and 2002, respectively. The loss of large customers could adversely impact our business, prospects, and financial results.

***Our success depends on our key personnel.***

Our success depends upon the contributions of our executive officers and other key personnel. All of our key management and technical personnel have expertise which is in high demand among our competitors, and the loss of any of these individuals could cause our business to suffer. We do not as a general matter maintain key man life insurance policies on our officers, directors and key employees.

***Our success depends on our proprietary software technology.***

Our success depends upon our proprietary software technology. Although we believe that our technology has been developed independently and does not infringe on the proprietary rights of others, we cannot assure you that the technology does not and will not infringe or that third parties will not assert infringement claims against us in the future. In the case of infringement, we would, under certain circumstances, be required to modify our products or obtain a license. We cannot assure you that we would be able to do either in a timely manner under acceptable terms and conditions or at all, or that we will have the financial or other resources necessary to defend successfully a patent infringement or other proprietary rights infringement action. Further, even if we were not infringing, intellectual property litigation is expensive and time consuming for management. Failure to do any of the foregoing could have a material adverse effect on us. Furthermore, if our products or technologies are deemed to infringe upon the rights of others, we could become liable for damages, which could have a material adverse effect on us.

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Readsoft, one of our competitors, filed a patent application entitled "Method and arrangement for Automatic Data Acquisition of Forms." The patent was granted on August 18, 2003 (EP 0976092). We believe that there are legal grounds for the patent to be revoked or substantially limited and are vigorously pursuing such ends. In May 2004, we filed a Notice of Opposition with the European Patent Office requesting that the patent be revoked in its entirety. However, there is no assurance that our efforts will be successful. Although we do not believe that any of our products would infringe upon this patent, there is some risk that if the patent remains intact, Readsoft may at some point in the future allege that we infringe on the patent, requiring us to dedicate time and resources to defend our intellectual property rights, which could impact our financial results. If Readsoft were to prevail in such a claim, there could be a material adverse effect on our business, prospects and financial condition.

In addition, we license components of our software systems and technology from third parties in reliance on such parties' representations as to ownership of the licensed intellectual property. If our licensors are found not to own or have rights to sublicense such rights to us and we are unable to replace the licensed technology with a comparable substitute, there could be a material adverse effect on our business prospects and financial results. Even if we were to replace licensed technology with available alternatives, it could take time to identify the best replacement and integrate it into our software. The delay and uncertainty could negatively impact our financial results.

Prof. Yeshurun, our former Chief Scientist, was, at the time of his employment with us, a Professor of the Tel Aviv University Computer Science Department where he conducted research in the areas of computer vision, neural computation and robotics. While the University consented to Prof. Yeshurun's employment by us and has not asserted any claim that intellectual property developed by Prof. Yeshurun on our behalf belongs to the University, the University has not acknowledged our rights to any intellectual property developed by Prof. Yeshurun. We cannot assure you that the University will not assert a claim for such intellectual property rights in the future or that the University does not have any rights to such intellectual property.

***Our inability to protect our intellectual property could adversely affect our competitive position and, consequently, our business and operations.***

Our success depends on our ability to protect our intellectual property. We rely upon trade secret protection, employee and third-party nondisclosure agreements and other intellectual property protection methods to protect our confidential and proprietary information. Despite these efforts, we cannot be certain that others will not otherwise gain access to our trade secrets or copy and use information that we regard as proprietary without our authorization. We have not obtained any patents and we cannot assure you that we will obtain any patents. In addition, we cannot assure you that:

any patents which we may obtain will be broad enough to protect our technology, will provide us with competitive advantages or will escape challenge or invalidation by third parties;

the patents of others will not have an adverse effect on our ability to do business; or

others will not independently develop similar products, duplicate our products or, if patents are issued to us, design around these patents.

Further, the laws of foreign jurisdictions where we sell and seek to sell our products may afford little or no protection of our intellectual property rights. We cannot assure you that the protection provided to our intellectual property rights by the laws and courts of foreign nations will be substantially similar to the remedies available under U.S. law.

***If we are unable to build awareness of our brands, we may not be able to compete effectively against competitors with greater name recognition and our sales could be adversely affected.***

If we are unable to economically achieve and maintain a leading position in data recognition software or to promote and maintain our brands, our business, results of operations and financial condition could suffer. Development and awareness of our brands will depend largely on our success in increasing our customer base. In order to attract and retain customers and to promote and maintain our brands in response to competitive pressures, we may be required to increase our marketing and advertising budget or increase our other sales expenses. There can be no assurance that our efforts will be sufficient or that we will be successful in attracting and retaining customers or promoting our brands. Failure in this regard could harm our business and results of operations.

***Our products may contain defects, damaging our reputation, causing a loss of customers, and requiring us to allocate significant time and financial resources to correct, and which may result in damage to our reputation and liability claims.***

Our products may contain undetected errors or defects, particularly when first introduced or when new versions or enhancements are released. In the past, we have discovered minor software bugs in certain products after they were released to the market. Such errors or defects could require us to divert financial and other resources to correct the problems.

In addition, our products are combined with complex products developed by other vendors. As a result, should problems occur, it may be difficult to identify the source or sources of the problems. Defects and errors, or end-user perception of defects and errors, found in current versions, new versions or enhancements of these products after commencement of commercial shipments may result in:

loss of customers;

warranty claims;

damage to brand reputation;

delay in market acceptance of current and future products; and

diversion of development and engineering resources.

Defects, errors or successful product liability claim against us could have a material adverse effect on our business, prospects and financial results.

***We engage in international sales, which expose us to a number of foreign political and economic risks.***

We engage in international sales which are subject to a number of risks that could seriously impede our financial condition and growth. As a result of our product sales in various geographic regions, we are subject to the risks associated with international sales, including license requirements, economic and political instability, shipping delays, customs duties, export quotas and other trade restrictions, any of which could have a significant impact on our ability to deliver products on a competitive and timely basis and exacerbate the risks inherent in our business. While we have not encountered significant difficulties in connection with the sales of our products in international markets, the future imposition of, or significant increases in, the level of custom duties, export quotas or other trade restrictions could have an adverse effect on us. Further, we cannot assure you that the laws of foreign jurisdictions where we sell and seek to sell our products afford similar or any protection of our intellectual property rights as may be available under U.S. laws. We are directly impacted by the political, economic, military and other conditions in the countries where we sell or seek to sell our products.

***Our capital requirements have historically been significant and we may not in the future be able to meet our requirements with our working capital.***

Historically, our capital requirements have been significant. We may in the future require additional financing to fund our operations and capital requirements beyond our current resources and that provided from our operations. In such event, we cannot assure you that additional financing will be available to us when needed, on commercially reasonable terms, or at all. We have no expectation that our existing shareholders will provide any portion of our future financing requirements. Any inability to obtain additional financing when needed would have a material adverse effect on us, requiring us to curtail our expansion efforts. In addition, to the extent that we incur substantial indebtedness, we will be subject to risks associated with incurring substantial indebtedness, including the risk that interest rates may fluctuate, and cash may be insufficient to repay interest and principal on any such indebtedness. Any additional equity financing may involve substantial dilution of the interests of our then-existing shareholders.

***Political, economic and military conditions in Israel may adversely affect our ability to develop, manufacture and market our products.***

Since our principal offices are located in Israel, political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. There has been a marked increase in such hostility and a significant deterioration of Israel's relationship with the Palestinian community since October 2000. Continuing or escalating hostilities in the region or curtailment of trade between Israel and its present trading partners may have an adverse effect on our business conditions, including our ability to develop, manufacture and market our products.

***Our operations may be disrupted by the obligation of key personnel to perform military service.***

Some of our executive officers and employees in Israel are obligated to perform up to 36 days of military reserve duty annually. Moreover, in light of escalating hostilities and threats of armed conflict in the Middle East since October 2000, our executive officers and employees may be called for active military duty for an unlimited period of time. Increased military activity could also result in a reduction of prospective qualified employees available to work for us to increase our business or replace employees on active military duty. Our operations could be disrupted by the absence for a significant period of our executive officers or key employees as a result of military service. Any disruption in our operations could adversely affect our ability to develop and market products.

***Since most of our revenues will most likely be generated in U.S. dollars and other non-Israeli currencies while a significant portion of our expenses are and will continue to be incurred in New Israeli Shekels, we may be adversely impacted by inflation and fluctuations in currency exchanges.***

We anticipate that most of our revenues will be generated in U.S. dollars, but most of our expenses will be incurred in NIS. As a result, we are exposed to risk to the extent that the rate of inflation in Israel exceeds the rate of devaluation of the NIS in relation to the U.S. dollar or such other currencies, or if the timing of this devaluation lags behind inflation in Israel. In that event, the cost of our operations in Israel measured in NIS will increase and our results of operations could be adversely affected. In addition, our operations also could be adversely affected as a result of fluctuations in currency exchange rates. We have not engaged in currency hedging transactions, nor can we assure you that engaging in such transactions could materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations.

***We may not be able to expand our personnel or marketing efforts quickly enough to support our growth.***

Because of our small size and our business strategy to increase our sales, we anticipate an increased demand on all of our resources. If we do not accurately estimate our need for personnel or marketing and customer support, we may not be able to support our future growth. For example, if we are successful in our efforts to obtain significant orders for our products, we may be required to install and service, on a timely basis, large numbers of installations at our customers' locations. We cannot assure you that we will be able to provide such services on adequate terms and conditions or at all. Furthermore, in order to remain competitive and keep our products up to date, we need to continue to attract and retain a qualified team of employees. If we fail to obtain the human resources our business requires, there could be a material adverse effect on our business, prospects, and financial results.

***Government grants we received for research and development expenditures may be reduced or eliminated in the future due to Israeli government budget cuts. Furthermore, our receipt of such grants limits our ability to develop products and transfer technologies outside of Israel, and require us to satisfy specified conditions.***

In the past, we have received grants from the government of Israel through the Office of the Chief Scientist of the Ministry of Industry and Trade, or the OCS, for the financing of a portion of our research and development expenditures in Israel. The Israeli government has reduced the benefits available under this program in recent years and may decide not to continue the program in the future at its current level or to terminate it altogether.

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The terms of the OCS grants limit our ability to develop products and transfer technologies outside of Israel without the prior approval of the OCS, if such products or technologies were developed using OCS grants. Such approval, if granted, will generally be subject to additional financial obligations. In addition, if we fail to comply with any of the conditions imposed by the OCS, including the payment of royalties with respect to grants received, we may be required to refund any payments previously received from the OCS, together with interest and penalties.

***If we fail to satisfy the condition specified by our Approved Enterprise program, we may be denied benefits to which we are currently entitled to in the future.***

The Investment Center of the Israeli Ministry of Industry and Trade has granted us Approved Enterprise status to certain development programs. The benefits available to an Approved Enterprise program are dependent upon the continuing fulfillment of ongoing conditions stipulated under applicable law and in the certificate of approval. If we fail to comply with these conditions, in whole or in part, benefits from tax exemptions or reduced tax rates would likely be denied to our shareholders or us in the future.

***Our sale of 2,524,351 of our ordinary shares and related warrants to purchase up to an additional 1,262,188 of our ordinary shares, as well as the registration of those and other shares could negatively impact the market price of our ordinary shares.***

On September 24, 2004, we sold 2,524,351 ordinary shares of the Company at a purchase price of \$3.16 per share to investors for gross proceeds to the Company of approximately \$8 million. The investors also received warrants to purchase up to an additional 1,262,188 ordinary shares, with an exercise price of \$4.26 per share. The warrants expire on September 23, 2007.

In connection with the private placement, we have filed the registration statement of which this prospectus is a part covering the shares purchased in the private placement (including the shares underlying the warrants). In accordance with prior agreements, the registration statement also covers the ordinary shares held by Charter TiS L.L.C., an affiliate of Charterhouse Group International Inc., Izhak Nakar, and their affiliates. We are required to maintain an effective registration statement covering the resale of our ordinary shares sold to the selling shareholders who purchased our ordinary shares in the September 24, 2004 private placement transaction, and the shares issuable upon exercise of the warrants issued to those investors, until the earlier of the date that all shares issued and issuable to the investors and the holders of the warrants have been sold and the fifth anniversary of the date on which the registration statement of which this prospectus is a part becomes effective. While the registration statement is effective, or pursuant to the exemption from registration provided by Rule 144 under the Securities Act, if applicable, the investors, Charter and Mr. Nakar may sell their shares into the general trading market. An influx of additional shares could exert downward pressure on the market price of our ordinary shares. Accordingly, there could be material adverse effect on the market price of our ordinary shares.

***Our ability to raise capital could be impaired as a result of our anticipated sale of securities.***

Pursuant to our agreement with the investors in the private placement described in the preceding risk factor, we are subject to restrictions with respect to the sale of our securities. We are restricted from selling additional securities of the Company until 30 days have elapsed following the effectiveness of the registration statement of which this prospectus is a part, subject to certain exceptions. During the one-year period that then follows, before we are able to sell our securities, in most instances we are required to first offer the securities to the investors pursuant to terms set forth in our agreement with them. The foregoing terms and right of first offer could delay our efforts to raise capital and increase transaction costs and could limit our ability to obtain additional financing.

***Our ordinary shares are traded on limited markets and have been subject to frequent significant price fluctuations. If we fail to maintain minimum bid requirements, we could be delisted.***

Our ordinary shares are quoted on the NASDAQ SmallCap Market, and have been subject to frequent significant price fluctuations, due in part to speculative activity. Furthermore, we must continue to meet certain maintenance requirements including minimum bid requirements, in order for such securities to continue to be listed on the NASDAQ SmallCap Market. If our securities are delisted from the NASDAQ SmallCap market, investors' liquidity in our securities could be reduced.

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On October 18, 2004 the last reported sale price of our ordinary shares on the NASDAQ SmallCap Market was \$3.08 per share. However, our stock price has been historically volatile and on October 3, 2003 reached a low of \$1.90 per share. If we fail to consistently maintain the minimum price for the periods required by NASDAQ, our ordinary shares could be delisted pursuant to applicable rules. Delisting could materially and adversely affect the trading market and prices for our securities. Delisting or suspension of trading of our ordinary shares on the NASDAQ SmallCap Market could also trigger an obligation for us to pay liquidated damages to the investors in the private placement described in the preceding risk factors.

In addition, if our securities were to be delisted from the NASDAQ SmallCap Market, our ordinary shares could be considered a penny stock under federal securities law. Additional regulatory requirements apply to trading by broker-dealers of penny stocks that could result in the loss of an effective trading market for our securities.

*We do not intend to pay dividends.*

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain any future earnings to finance operations and to expand our business and, therefore, do not expect to pay any cash dividends in the foreseeable future.

### **The application and/or amendment of Israeli laws or laws of other countries may adversely affect our ability to enforce judgments or other rights.**

Since our principal offices are located in Israel, we are subject to Israeli law. Many of our contracts with third parties are subject to the laws of other jurisdictions. We cannot assure you that any judgments granted in the United States or any jurisdiction other than Israel would be capable of enforcement or execution in Israel. Nor can we assure you that any of our contracts pursuant to the laws of any foreign country are enforceable by us. The inability to enforce or execute judgments or other rights and/or the possibility of the laws of various jurisdictions being amended from time to time may have a material adverse effect on our business, prospects, and financial condition.

### **FORWARD LOOKING STATEMENTS**

Certain information contained herein that does not relate to historical facts may be deemed to constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words or phrases *will likely result*, *are expected to*, *will continue*, *is anticipated*, *estimate*, *project*, *believe*, *plan* or similar expressions identify some, but not all of the forward looking statements contained in this report. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results and those presently anticipated or projected. We wish to caution readers not to place undue reliance on any such forward looking statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Among the factors that could cause our actual results in the future to differ materially from any opinions or statements expressed with respect to future periods are competitive industry conditions and various other factors set forth under the heading *Risk Factors* and elsewhere in this prospectus.

**Identity of Directors, Senior Management**

The following table sets forth the identity of our directors, and senior management. The mailing address for each of the individuals below is c/o the Company at our address set forth herein.

Thomas C. Lavey	60	Chairman of the board of directors
Ido Schechter	42	Chief Executive Officer
Arie Rand	44	Chief Financial Officer
Gideon Shmuel	32	Vice President of Sales
Oded Leiba	33	Vice President of Engineering
Ofir Shalev	32	Vice President of Research and Development
Victor Halpert	43	External Director
Zamir Bar Zion	46	External Director
Izhak Nakar	52	Director
William M. Landuyt	48	Director
Elie Housman	67	Director
Phyllis Haberman	55	Director

**OFFER STATISTICS AND EXPECTED TIMETABLE**

The offering shall remain open until the earlier of September 24, 2009 (unless extended pursuant to our agreements with the investors in our September 24, 2004 private placement), and the date on which all the shares registered for resale pursuant to the registration statement of which this prospectus is a part are sold. We will announce the extension or early closure of the offering through a press release or other means reasonably sufficient to notify prospective purchasers.

**CAPITALIZATION AND INDEBTEDNESS**

The following table sets forth unaudited consolidated short-term debt and capitalization, under Israeli GAAP, as at June 30, 2004. This table should be read in conjunction with our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2003, which are incorporated by reference in this prospectus. Both short and long-term debts have been included in the calculation of our capitalization.

	<b>June 30, 2004</b>
	<b>In US \$</b>
Short-term debt unsecured	3,354,209
Total short-term debt secured	-
	<hr/>
Total short-term debt	3,354,209
Long-term debt (excluding amounts due within one year):	
Long-term debt unsecured	204,807
Long-term debt secured	-
	<hr/>
Total long-term debt	204,807
Shareholders' Equity: *	
Ordinary share capital	73,865
Share premium account	22,538,741
Profit and loss account	(14,777,017)
	<hr/>
Total shareholders' equity	7,835,590
Total capitalization	11,394,606
	<hr/>

\* The shareholders equity does not include the net proceeds of approximately \$7.1 million which we received in our September 24, 2004 private placement.



**SELECTED FINANCIAL DATA**

The following selected financial data as of, and for the years ended, December 31, 2001, 2002, and 2003 have been derived from, and should be read in conjunction with, our consolidated financial statements, related notes and other financial information which is incorporated by reference in this prospectus. The selected financial data as of, and for the years ended, December 31, 1999 and 2000 have been derived from our audited consolidated financial statements incorporated herein by reference to our annual report on Form 20-F for the year ended December 31, 2003. Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Israel, or Israeli GAAP. Israeli GAAP vary in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Application of U.S. GAAP would have affected our results of operations and shareholders' equity for each of the years in the three-year period ended December 31, 2003 to the extent summarized in Note 18 to our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2003, incorporated herein by reference.

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## Year Ended December 31,

	1999 \$	2000 \$	2001 \$	2002 \$	2003 \$
Revenues	8,299,774	10,626,342	11,959,249	7,799,093	8,319,002
Cost of revenues	1,978,945	3,923,932	3,072,333	3,005,463	2,339,790
Gross profit	6,320,829	6,702,410	8,886,916	4,793,630	5,979,212
Research and development, net	677,624	2,121,901	2,198,628	1,340,408	863,209
Selling, general and administrative, and other expense	5,901,405	11,386,054	9,800,622	7,464,572	5,818,426
Financial expense (income)	(47,212)	(439,972)	(287,197)	(187,318)	(98,376)
Other (income) expense	25,294	460	(33,708)	3,756	-
Taxes on Income	-	-	-	-	-
Minority share in loss of a subsidiary	-	2,410	-	-	-
Net income (loss)	(236,282)	(6,363,623)	(2,791,429)	(3,827,788)	(604,047)
Israeli GAAP net basic and dilutive income (loss) per share	(0.053)	(1.088)	(0.440)	(0.628)	(0.096)
Israeli GAAP weighted average number of shares outstanding	4,267,760	5,848,890	6,341,390	6,098,890	6,252,996
U.S. GAAP net basic income (loss) per share	(0.061)	(1.095)	(0.458)	(0.627)	(0.097)
U.S. GAAP weighted average number of shares outstanding	3,885,188	5,810,376	6,098,890	6,098,890	6,102,496
U.S. GAAP net dilutive income (loss) per share	(0.061)	(1.095)	(0.458)	(0.627)	(0.097)
U.S. GAAP weighted average number of shares outstanding	3,933,495	5,810,376	6,098,890	6,098,890	6,102,496

## Balance Sheet Data:

## As of December 31,

	1999 \$	2000 \$	2001 \$	2002 \$	2003 \$
Cash and cash equivalents	2,039,519	12,107,098	9,419,165	7,400,889	5,854,436
Working capital	6,537,447	14,075,684	11,292,455	7,739,509	7,353,113
Total Assets	8,062,005	18,069,247	15,548,725	12,001,066	11,628,430
Long Term debt	9,350	-	-	-	-
Total liabilities	1,207,582	3,389,362	3,528,128	3,798,801	3,998,724
Shareholders equity	6,854,423	14,679,885	12,020,597	8,202,265	7,639,706

**USE OF PROCEEDS**

We will not receive any proceeds from the resale of our ordinary shares by the selling shareholders under this prospectus or from the sale of our ordinary shares issuable upon exercise of the warrants issued to the selling shareholders. However, we could receive \$5,376,920 before expenses if the warrants are exercised in full. We intend to utilize the proceeds of the exercise of the foregoing warrants, if any, for working capital and other general corporate purposes.

**INFORMATION ABOUT THE COMPANY**

**History and Development**

We were incorporated and are domiciled in Israel and exist as a company with a limited share capital subject to Israeli law. Our registered and principal executive offices are located in Israel at 2 Habarzel Street, Ramat Hahayal, Tel Aviv 69710, and our telephone number is 011-972-3-767-9100. Our website is <http://www.topimagesystems.com> (the information contained in our website is not a part of this prospectus and no portion of such information is incorporated herein).

**Business Overview**

**General**

We develop and market automated data capture solutions for managing and validating content gathered from customers, trading partners and employees. Whether originating from electronic, paper, mobile or other sources, our solutions deliver digital content to the applications that drive an enterprise by using advanced technologies including wireless communications, servers, form processing and information recognition systems. Our software improves business processes by integrating different types of data from multiple sources. Our products integrate information regardless of the source and format of the data, whether structured, as in the case of application forms or surveys, or semi-structured, such as invoices, purchase orders, checks, freight and shipping bills and others. Our solutions seamlessly deliver the extracted data to applications such as document and content management, enterprise resource planning, or customer relationship management. Our solutions minimize the need for manual data entry by automatically reading, identifying, interpreting and processing information, thereby increasing data capture accuracy and the rate of information processing. The platform solution we offer replaces traditional means of extracting information from paper-based documents and integrates multiple information sources into a single enterprise-level solution that increases speed and efficiency.

**Products**

TiS signature solution is the *eFLOW Unified Content Platform*<sup>™</sup>. *eFLOW*<sup>™</sup> provides the common architectural infrastructure for our solutions. We anticipate that future developments will also be based on the Unified Content Platform.

Based on a single, integrated environment, the *eFLOW*<sup>™</sup> platform provides a visual application designed to enable the structure of a complete form processing and data capture solution quickly and easily. Providing a modular platform with an open, scalable and flexible architecture, *eFLOW*<sup>™</sup> facilitates the development of applications ranging from desktop, stand-alone applications to high-volume, network-based systems.

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TiS *eFLOW*<sup>TM</sup> provides enterprise-wide solutions for every data capture and content delivery need, all on a single platform, using one set of business rules. *eFLOW*<sup>TM</sup> allows a customer to integrate data from multiple sources, including the Internet, paper, fax, microfilm, microfiche, electronic, and email, and of different types such as invoices, freight and shipping bills, purchase orders and others, to provide a single connection to the enterprise application system. Our *eFLOW*<sup>TM</sup> platform allows maximum flexibility, using one set of rules for all applications, dramatically reducing implementation time while broadening the utility of the solution across the customer's business.

*eFLOW*<sup>TM</sup> is designed to address the needs of companies, institutions, government agencies, and other organizations with a broad range of form processing requirements (5,000 or more forms per day).

*eFLOW*<sup>TM</sup> offers a definite advantage in mixed environments where documents in different formats need simultaneous processing, sorting, and storing in databases for retrieval at a later date. Top Image Systems technology can manage these tasks without the need to pre-design a working template.

In addition, *eFLOW*<sup>TM</sup> may integrate with a customer's financial systems, enterprise resource planning (ERP) and other relevant applications to provide an end-to-end solution for managing invoices and payments. *eFLOW*<sup>TM</sup> therefore eliminates a significant portion of traditional manual data entry, decreases the need for data entry resources and processing time, and significantly improves the quality, accuracy and value of the data.

*eFLOW*<sup>TM</sup>'s underlying infrastructure utilizes advanced technologies, such as Microsoft .NET and Microsoft Visual Basic for applications, to provide an accelerated data capture solution for paper, electronic forms, fax, and ftp files. Developing the advanced version of *eFLOW Unified Content Platform*<sup>TM</sup>, *eFLOW*<sup>TM</sup> Version 2.0 and future version, based on the Microsoft .NET technology ensures its compatibility to future Microsoft technologies and other technology partners, as well as its usability to our customers. The use of these technologies allows customers, developers and partners to modify user interfaces, extend functionality and connect TiS *eFLOW*<sup>TM</sup> with other mission-critical applications to create fully integrated business solutions. *eFLOW*<sup>TM</sup> includes support for the XML standard which enables the interchange of documents between systems and applications in a standard format.

Targeting banking and finance, logistics, insurance, postal systems, healthcare, tax, statistics and many other potential markets, *eFLOW*<sup>TM</sup> technologies enable enterprises to implement digital information recognition, improving processing and speeding up the data entry cycle by providing a single data collection entry point.

### ***Integra for Structured Content***

*Integra*, our *eFLOW*<sup>TM</sup> plug-in for structured content, provides a solution for data capture, validation and delivery from structured predefined forms.

### ***Freedom for Semi-Structured Content***

*Freedom*, the *eFLOW*<sup>TM</sup> plug-in for semi-structured content, enables customers to identify and capture critical data from semi-structured documents such as invoices, purchase orders, shipping notes and checks. Based on artificial intelligence, *Freedom* is designed to understand the format of a document without the need to predefine its structure. *Freedom* is able to locate, identify, capture and validate critical data contained in the document. The market for this product includes companies that receive thousands of semi-structured documents such as invoices every month from hundreds of suppliers, and allows them to automatically identify and process any type of such documents.

The Learning module is one of *eFLOW*<sup>TM</sup>'s innovative modules which automatically learns new types of forms in order to both introduce new forms previously unseen into the system and to improve recognition of existing forms already captured into the system. Unrecognized forms reach the Learning module, where an operator trains the system to locate certain important fields. The new information would then be available for the system to recognize a similar, although not necessarily identical, form in the future.

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### **AFPSPro™**

AFPSPro™ had been our flagship product until the introduction of the *eFLOW Unified Content Platform™*. We are at the end of the process of upgrading AFPSPro™ customers to *eFLOW™* and plan to gradually phase out AFPSPro™.

### **Principal Markets**

As of December 31, 2003, we operated branch offices in the United States, the United Kingdom and Germany through subsidiaries. During 2004, we began to modify our corporate structure in Europe (see the section entitled Organizational Structure ). However, we do not believe that these changes will have a material effect on our business, prospects and financial condition.

Our U.S. branch is responsible for sales, marketing and support activities in the United States, Canada, and Latin America. These three territories, together with Japan, define our principal markets. In addition, we believe that there exist significant opportunities in France, South Africa, the Czech Republic, Spain, Australia, Belgium, the Netherlands and Luxembourg. During 2004, we plan to change this structure and establish major sales centers in several locations worldwide. These centers will manage our sales, marketing and operational activity in their locations, providing integration and implementation services, as well as marketing support. As part of our previously announced strategic plan, we are seeking to expand our already strong presence and market position in Japan and utilized a portion of the proceeds from our recent private placement (see also the section entitled Liquidity and Capital Resources ) to acquire certain assets of Toyo Ink's EDMS division (as more fully described in the section entitled Competition below). We are currently exploring various options regarding our expansion plans. We continuously review opportunities for expansion in both new and existing markets.

The following table summarizes total revenues by category of activity and geographic market for each of the last three fiscal years:

	Year Ended December 31,					
	2001		2002		2003	
	\$	%	\$	%	\$	%
<b><u>Product Revenues by Region</u></b>						
Europe	1,744,447	17.6%	2,656,670	41.4%	4,279,397	69.0%
Far East (excluding Japan)	895,702	9.0%	690,769	10.8%	1,315,888	21.1%
South America	2,631,506	26.5%	70,000	1.1%	506,000	8.1%
Africa	640,867	6.5%	432,478	6.7%	55,845	0.9%
North America	1,109,005	11.2%	934,335	14.5%	43,125	0.7%
Israel	65,434	0.7%	13,166	0.2%	10,271	0.2%
Middle East (excluding Israel)	219,709	2.2%	90,393	1.4%	-	0.0%
Japan	2,607,181	26.3%	1,485,537	23.1%	-	0.0%
Other	-	0.0%	50,000	0.8%	-	0.0%
Total	9,913,851	100%	6,423,348	100%	6,210,526	100%
<b><u>Service Revenues by Region</u></b>						
Europe	1,108,266	54.2%	834,663	60.7%	1,449,099	68.7%
North America	210,378	10.3%	192,756	14.0%	348,874	16.5%
Far East (excluding Japan)	164,044	8.0%	125,348	9.1%	139,238	6.6%
Africa	50,800	2.5%	70,976	5.2%	88,319	4.2%

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Year Ended December 31,

	2001		2002		2003	
	\$	%	\$	%	\$	%
Japan	106,929	5.2%	92,114	6.7%	51,399	2.4%
Israel	113,595	5.6%	32,908	2.4%	20,387	1.0%
South America	67,417	3.3%	23,544	1.7%	10,000	0.5%
Middle East (excluding Israel)	217,456	10.6%	3,436	0.2%	1,160	0.1%
Other	6,513	0.3%	-	0.0%	-	0.0%
<b>Total</b>	<b>2,045,398</b>	<b>100%</b>	<b>1,375,745</b>	<b>100%</b>	<b>2,108,536</b>	<b>100%</b>

### Seasonality

Our business significantly depends upon the requirements of large corporations and governmental agencies. Because many of these entities operate according to annual budgets, their tendency is to approve budgets in the beginning of the fiscal year and release the budgets toward the end of the fiscal year. This mode of operation affects our results of operations throughout the year. See the section entitled Quarterly Results; Seasonality in this prospectus for additional detail.

### Marketing Strategy

Over the past few years, we have shifted our marketing emphasis from a time and labor intensive orientation, which required us to provide technical support and customization for our customers, to *eFLOW*<sup>TM</sup>, which is marketed as an enterprise solution. We now market *eFLOW* to value added resellers, distributors and systems integrators to assist them in building form processing systems more quickly, easily, and economically at their customers' locations. This change in our marketing strategy has freed us from having to expend resources in providing support and services to the end-user since value added resellers, distributors and systems integrators increasingly perform these functions. As we have shifted our marketing strategy from project-oriented to solution-oriented, we have increasingly sought strategic alliances with value added resellers, distributors and systems integrators. This has also enabled us to expand our market share in new geographic markets by partnering with the top-tier value added resellers, distributors and systems integrators located in or selling products in each country. This enables us, together with each partner, to initiate common marketing and sales strategies and thereby, to generate sales. This strategy is based on our belief that value added resellers, distributors, systems integrators and Original Equipment Manufacturers, or OEMs, generally have better access to end-users in their respective markets than we do. By engaging value added resellers, distributors, systems integrators and potentially, OEMs, to include our products as part of their products and service offerings, we can sell products to end-users without the costs of directly marketing to end-users. However, working through channels instead of engaging in direct sales to customers limits our share in each transaction's revenues.

It is essential while working in remote territories to provide an efficient platform for marketing *eFLOW*<sup>TM</sup> across the globe. In territories where we enjoy a strong presence and maintain a local branch office, and where the market potential is high, we choose to work directly with the customers. While cooperating with partners in these territories, we can offer an expanded solution. We provide consulting, implementation and support services directly to the customers and thus we enjoy a closer relationship with the customer and larger share of the deal's revenues. We are endeavoring to continue this trend in the coming years. Currently, we sell through a network of value added resellers, distributors and systems integrators in approximately 30 countries worldwide. The system integrators are managed via our sales and marketing force located in our sales centers and in our headquarters in Israel. We have implemented a program to align ourselves with major complementary strategic level partners who can help us reach new target customers and market segments. These agreements call for the strategic partner and us to plan and coordinate marketing and sales activities in their respective territories.

In September 2004, we announced the establishment of Top Image Systems, TiS Japan Ltd (TiSJ), a new subsidiary in Japan. At the end of August 2004, we signed a definitive agreement with our longtime partner Toyo Ink Mfg. Co., Ltd. to acquire certain assets of Toyo Ink's EDMS division. The division, established eight years ago and dedicated to the imaging business, has been exclusively marketing and implementing TiS solutions in Japan. Pursuant to the agreement, Toyo Ink transferred certain customers and channels from Toyo's EDMS division to the company. We also received the rights to distribute the Japanese localized version of TiS *eFLOW Unified Content Platform*. Certain members of EDMS professional team have been assigned to TiSJ in order to ensure the continuity of knowledge and high level services provided to Japanese customers and partners. Top Image Systems, TiS Japan Ltd. is now responsible for all operations in Japan, including technical support and maintenance services for existing, as well as new, channels and customers.

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In September 2004, we also announced a strategic OEM partnership with Xtramind Technologies GmbH, the major provider of AI-based software for the disclosure of unstructured content. The integration of Xtramind's content classification component into TiS *eFLOW* platform allows for automatic routing, classifying and archiving of documents according to user-defined categories. Utilizing Xtramind's modern language technology and artificial intelligence, we now offer a complete, integrated self-learning system with unparalleled precision in content analysis.

In July 2004, we announced the cooperation with Arthis to automate supplier invoice processing, including multipage, multitax and multicurrency options, for La Rinascente Group, a prominent Italian retail player. Arthis is a company established by The La Rinascente Group and Accenture, in order to manage many of the retailer's back-office functions, from accounting services to financial reporting.

In June 2004, we announced the OEM integration with Transmit plc, a UK based eProcurement and ePayables solutions provider. Through this partnership we may now offer a complete Account Payable and Receivable solution: an automated financial capture solution for invoices and purchase orders.

In May 2004, we announced a strategic partnership with RAG INFORMATIK GmbH, one of the largest specialized IT service providers in Germany, after successful implementation at Deutsche Steinkohle AG. Through this partnership we offer customers a unique, complete, best-of-breed, SAP R/3-based account payable solution: an automated financial capturing solution for invoices, fully integrated with SAP R/3 Workflow

In April 2004, we announced strategic partnership with ASI Solutions, an Australian system integration and services provider, to distribute *eFLOW* in Australia and New Zealand.

In March 2004, we announced a partnership with IFN Systems, an international software development company and the Israeli representative of *FILENET*®, based on shared technological knowledge and complementary technologies. Previously to this announcement, we have been cooperating with IFN on a joint project, to provide the customer with a complete solution for various documents, including data capture, workflow, and document management across the company. According to the terms of the agreement, IFN Systems will act as our system integrator and local support provider in Israel, leveraging its strong presence across various industry sectors, such as the banking and insurance markets in Israel.

In September 2003, we announced a partnership agreement with Xerox France, which, through its Xerox Global Services division, markets a comprehensive range of digital document solutions and services. Its offerings are focused on three main areas: consulting, systems integration, and document process outsourcing. The agreement covers the integration of the TiS *eFLOW* Unified Content Platform in Europe. The agreement reflects a natural extension of previous successful cooperation between Xerox and Top Image Systems in Latin America.

In July 2003, we announced a global partnership with Documentum, a leading provider of Enterprise Content Management solutions (ECM). Becoming a technology partner of Documentum fits well with TiS long-term strategy, to achieve connectivity between the *eFLOW* platform and leading enterprise management applications such as CRM, ERP, ECM, and workflow. In June 2003, we signed a sales and marketing partnership agreement with Carla bella, a leading editor and integrator of Internet / Intranet applications and company software packages. According to the terms of this agreement, Carla bella acts as Top Image System's distributor, integrator and a local support provider (Level 1 and 2) in France, leveraging its strong presence across various industry sectors.

In May 2003, we announced a partnership with SAP, after the successful SAP® Certified Integration of *eFLOW*™. In order to ensure ongoing technical support for this integration with mySAP Financials, TiS has based the integration on the SAP .NET connector available within SAP NetWeaver. The connectivity, via special interface, has been thoroughly tested from the architectural, implementational, and run-time aspects, and was certified by SAP AG. Like the partnership with Documentum, this integration fits well with TiS long-term strategy, to achieve connectivity between the *eFLOW* platform and leading enterprise management applications such as CRM, ERP, ECM, and workflow.

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Also in May 2003, we announced a partnership with OptoSweden AB, a leading Scandinavian developer and integrator of Electronic Document Management solutions (EDM), ICR and Scanning Environment. The partnership is our first in the Scandinavian Market.

In April 2003, we announced the integration of A2iA's FieldReader recognition engine into our *eFLOW* platform, through partnership with A2iA Corp., a world-leader and developer of Intelligent Word Recognition (IWR) software applications for cursive handwriting recognition and machine-print documents. This integration was part of TiS' constant efforts to broaden the capabilities of the *eFLOW Unified Content Platform™* to ensure superior data recognition levels.

Also in April 2003, we announced a partnership agreement with Aurovision, a global technology consulting and services organization headquartered in India. This partnership followed the successful implementation of the Indian population census.

In March 2003, we became an Independent Software Vendor (ISV) of the Oracle Partner Network. As such, TiS gained access to the services provided by Oracle 9i solutions and the eBusiness Suite, as well as many other web-based resources designed to enhance its value proposition, broaden opportunities, and extend its reach into the marketplace.

### **Licensed Technology**

We license various recognition software technologies from third parties in order to utilize them in our products. We currently use technologies developed by several different companies. Depending upon the requirements of each customer, we incorporate one or several of such technologies into a specific product. We are not dependent upon any single source of recognition software technology and the various technologies that we use are, in large part, interchangeable.

### **Intellectual Property Rights**

Our success depends upon our proprietary software technology. We rely upon trade secret protection, employee and third-party nondisclosure agreements and other intellectual property protection methods to protect our confidential and proprietary information. Despite these efforts, we cannot be certain that others will not otherwise gain access to our trade secrets or copy and use information that we regard as proprietary without our authorization. We have not obtained any patents and we cannot assure you that we will obtain any patents. In addition, we cannot assure you that:

any patents which we may obtain will be broad enough to protect our technology, will provide us with competitive advantages or will escape challenge or invalidation by third parties;

the patents of others will not have an adverse effect on our ability to do business; or

others will not independently develop similar products, duplicate our products or, if patents are issued to us, design around these patents.

Further, the laws of foreign jurisdictions where we sell and seek to sell our products may afford little or no protection of our intellectual property rights. We cannot assure you that the protection provided to our intellectual property rights by the laws and courts of foreign nations will be substantially similar to the remedies available under U.S. law.



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We believe that our technology has been developed independently and does not infringe on the proprietary rights of others. However, we cannot assure you that the technology does not and will not infringe or that third parties will not assert infringement claims against us in the future. In the case of infringement, we would, under certain circumstances, be required to modify our products or obtain a license. We cannot assure you that we would be able to do either in a timely manner under acceptable terms and conditions or at all, or that we will have the financial or other resources necessary to defend successfully a patent infringement or other proprietary rights infringement action. Further, even if we were not infringing, intellectual property litigation is expensive and time consuming for management. Failure to do any of the foregoing could have a material adverse effect on us. Furthermore, if our products or technologies are deemed to infringe upon the rights of others, we could become liable for damages, which could have a material adverse effect on us.

Readsoft, one of our competitors, filed a patent application entitled "Method and arrangement for Automatic Data Acquisition of Forms." The patent was granted on August 18, 2003 (EP 0976092). We believe that there are legal grounds for the patent to be revoked or substantially limited and are vigorously pursuing such ends. In May 2004, we filed a Notice of Opposition with the European Patent Office requesting that the patent be revoked in its entirety. However, there is no assurance that our efforts will be successful. Although we do not believe that any of our products would infringe upon this patent, there is some risk that if the patent remains intact, Readsoft may at some point in the future allege that we infringe on the patent, requiring us to dedicate time and resources to defend our intellectual property rights, which could impact our financial results. If Readsoft were to prevail in such a claim, there could be a material adverse effect on our business, prospects and financial condition.

In addition, we license components of our software systems and technology from third parties in reliance on such parties' representations as to ownership of the licensed intellectual property. If our licensors are found not to own or have rights to sublicense such rights to us and we are unable to replace the licensed technology with a comparable substitute, there could be a material adverse effect on our business prospects and financial results. Even if we were to replace licensed technology with available alternatives, it could take time to identify the best replacement and integrate it into our software. The delay and uncertainty could negatively impact our financial results.

Prof. Yeshurun, our former Chief Scientist, was, at the time of his employment with us, a Professor of the Tel Aviv University Computer Science Department where he conducted research in the areas of computer vision, neural computation and robotics. While the University consented to Prof. Yeshurun's employment by us and has not asserted any claim that intellectual property developed by Prof. Yeshurun on our behalf belongs to the University, the University has not acknowledged our rights to any intellectual property developed by Prof. Yeshurun. We cannot assure you that the University will not assert a claim for such intellectual property rights in the future or that the University does not have any rights to such intellectual property.

We believe that product recognition is an important competitive factor in the form processing industry. Accordingly, we promote the *eFLOW*<sup>TM</sup> name in connection with our marketing activities. We either hold or intend to apply for trademark registration of our significant solution and module names, although we cannot assure you that such applications will be successful. Although we have not sought to market our products using our trade name "TiS" as a trademark, we believe that certain other companies use trademarks that contain the letters "TIS" for products, which we believe do not compete with our products. We cannot assure you that this will not limit our ability to use our trade name "TiS" to market our products.

### **Competition**

The market for data capture systems in general, and for automatic form processing systems in particular, is characterized by intense competition, significant price erosion over the life of the product, and rapidly changing business conditions, customer requirements, and technology.

Our solutions compete with those developed and marketed by numerous well-established companies, as well as with manual data entry systems. Many of these competitors have substantially greater financial, technical, personnel and other resources than we do, and have established reputations for success in the development, licensing and sale of their products and technology. Certain of these competitors are industry leaders with the financial resources necessary to enable them to withstand substantial price competition or downturns in the market for computer software.

Our products compete with those developed and marketed by numerous well-established companies including Captiva Software, Mitek, BancTec, Dicom, Microsystems Technology, Datacap, SER, and ReadSoft, as well as with manual data entry systems.

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During the past two years, several mergers and acquisitions have taken place between our competitors and companies with related and complementary technology, dramatically changing our marketplace:

During 2002, Captiva Software Corporation merged with ActionPoint, a provider of enterprise information capture software. The merger created the largest provider of input management software solutions under the name Captiva Software Corporation. Towards the end of 2003, Captiva Software announced the acquisition of Context Inc. from the financial service outsourcing firm Automatic Data Processing, Inc. (ADP). Context Inc. develops software that improves the processing of healthcare claims. Vignette, a leading web content management provider, acquired Australian-based document imaging specialist Tower Technology to strengthen its position in the rapidly consolidating ECM space. Stellant, a web content management specialist, recently acquired Optika, an imaging and workflow vendor.

IBM acquired Green Pasture, an electronic document management specialist.

In addition, we often compete with major systems suppliers such as IBM, Siemens and Unisys. In these cases, the major systems suppliers offer one of our competitors' solutions as part of an integrated solution. There are also numerous other companies that have developed or may develop technologies or products that may be functionally similar to some or all of those we offer. We cannot assure you that other companies with greater financial resources and expertise do not have or are not currently developing functionally equivalent or superior products or that functionally equivalent or superior products will not become available in the near future.

The market for our technology and solutions is also characterized by rapid changes and evolving industry standards, often resulting in product obsolescence or shortened product lifespan. Accordingly, our ability to compete will be dependent upon our ability to continually enhance and improve our existing products and technologies, complete the development of, and introduce new solutions into the marketplace in a timely manner. We cannot assure you that we will be able to compete successfully, that our present or future competitors will not develop technologies or products that will render our products and technology obsolete or less marketable, or that we will be able to enhance successfully our existing products and technology or adapt them satisfactorily or develop new products.

In certain markets such as the United States, the United Kingdom and Germany, we compete with more than one company supplying similar solutions. In Japan, where these competitors are less active, we hold a more prominent position in the market. At the end of August 2004, we signed a definitive agreement with our longtime partner Toyo Ink Mfg. Co., Ltd. to acquire certain assets of Toyo Ink's EDMS division. The division, established eight years ago and dedicated to the imaging business, has been exclusively marketing and implementing TiS' solutions in Japan.

Pursuant to the agreement, Toyo Ink transferred certain customers and sales channels from Toyo's EDMS division to the company. We also received the rights to distribute the Japanese localized version of TiS' *eFLOW Unified Content Platform*. EDMS' professional team has been assigned to Top Image Systems, TiS Japan Ltd. in order to ensure the continuity of knowledge and high level services provided to Japanese customers and partners. Top Image Systems, TiS Japan Ltd. is now responsible for all operations in Japan, including technical support and maintenance services for existing, as well as new, channels and customers.

### **Customers**

Our customers consist of both governmental and other enterprises. During 2003, we demonstrated our solution's compatibility to large-scale projects, enhancing our competitive position in the industry. We were awarded a multi-million-dollar data-capture project for Swiss Post Finance, rendering it the largest contract in our history.

In addition, we have further strengthened our position in the automated data collection for national population census projects, with the successful completion of the population census projects of the Republic of Cyprus, Italy and India. The Indian census is the largest census project in the world, and included the processing of approximately 6 million forms per week. All projects were completed on time, beating extremely aggressive deadlines. Other market solutions provided by us include integrated systems for complicated semi-structured applications, including automating the capture and process of data from hundreds of different form formats of 3M facilities across Europe, and Business Transformation Outsourcing (BTO), a subsidiary of IBM that was established in order to provide automated outsourcing services to manage accounts payable and accounts receivable activities.

We have also strengthened our competitive position with the release of *eFLOW* Version 2.0, the latest version of the Company's signature software, *eFLOW* Unified Content Platform. This version of the product dramatically reinforces our ability to successfully compete and implement complicated projects involving processing documents of semi-structured formats. In addition, *eFLOW*'s *Smart* extends beyond classical form processing and recognition to include a unique capability that allows sophisticated collection and understanding of unstructured forms, thus providing the possibility to handle projects in a mixed environment.

### **Warranty and Service**

We generally negotiate our warranty obligations with respect to our products on a case-by-case basis. Performance warranties typically extend for 90 days.

We may be exposed to potential product liability claims by our customers and users of our products. Currently, we hold a worldwide product liability insurance policy that provides coverage limited to \$3,000,000 in aggregate for the policy period ending on September 30, 2005. Despite this coverage, a successful claim against us for product liability could have a material adverse effect on our financial condition. While we have not experienced material warranty liability in the past, we cannot assure you that future warranty expense will not have an adverse effect on us.

We have entered into maintenance and service agreements with certain of our customers. These agreements typically provide for regular payment to us of an amount equal to 15% per annum of the applicable license fees for maintenance. Our technical team also provides support to value added resellers, distributors and systems integrators to assist in integration of our products.

If we are successful in our efforts to obtain significant orders for our products, we may be required to install and service, on a timely basis, large numbers of installations at our customers' locations. We cannot assure you that we will be able to provide such services on adequate terms and conditions, or at all.

### **Governmental Regulation**

The government of Israel encourages research and development projects oriented towards products for export through its Office of the Chief Scientist Office, or OCS, pursuant to the Law for the Encouragement of Industrial Research and Development, 1984, commonly referred to as the Research Law. In exchange for assistance provided by the Israeli government in connection with research and development cost, we are committed to pay to the Israeli government royalties at the rate of 2% to 3.5% of revenues from sale of our *FormOut!*<sup>TM</sup> and *eFLOW*<sup>TM</sup> software, up to a maximum of 150% of the amount of participation received, linked to the U.S. dollar plus interest at the LIBOR rate. The Company's total outstanding obligation in respect of royalty-bearing government participation received or accrued, net of royalties paid or accrued, amounted to \$ 15,985 as of December 31, 2003.

The terms of grants under the Research Law also require that the manufacture of products developed with government grants be performed in Israel, unless a special approval has been granted. Ordinarily, any such approval will be conditioned upon acceleration of the rate of royalties and increasing the total amount to be repaid to up to 300% of the grants. Israeli government consent is required to transfer to third parties technologies developed through projects in which the government participates. Such restrictions do not apply to exports from Israel of products developed with such technologies. The consent of the OCS is required for the transfer of manufacturing rights out of Israel. Royalty-bearing grants received from the State of Israel for research and development are offset against the Company's research and development costs.

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Recent amendments to the Research Law provide for greater flexibility with regard to the place of manufacturing of products funded with development grants and give the authorities larger discretion than in the past based on the value added to the products. A plan may now be approved if the applicant is an Israeli corporation and, as a result of the plan, the applicant will develop in Israel, by Israeli residents, a new product or a significant improvement to an existing product, unless the plan is performed as part of an international cooperation agreement to which Israel is a party, or the OCS is convinced that it is essential for the execution of the plan that part of it will be performed out of Israel or by non-Israeli residents. The amendment also determined a variety of fixed levels of grants which the research committee (appointed according to the law) will be entitled to grant based on the expected contribution of the planned research and development to the Israeli economy.

The amendment requires the grant recipient and its controlling shareholders and interested parties to notify the OCS of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient. Such interested party will also be required to sign an undertaking in favor of the OCS in form published by the OCS. For this purpose, control is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. Means of control refers to voting rights and the right to appoint directors or the chief executive officer. An interested party of a company includes its chief executive officer and directors, anyone who has the right to appoint its chief executive officer or at least one director, and a holder of 5% or more of the company's outstanding equity or voting rights.

We also benefit from being designated as an Approved Enterprise under Israel's Law for the Encouragement of Capital Investments, 1959. For additional information, see the section entitled Law for the Encouragement of Capital Investments, 1959 in this prospectus.

Additionally, we may be subject to varied regulation in the markets where we sell our products. The burden of complying with such regulatory schemes (which may be contradictory) could have a material adverse effect on our ability to diversify or grow our sales.

### Organizational Structure

We currently have four operating subsidiaries. In August 1991, we established TiS America, Inc. to provide sales, marketing and technical support to our customers. TiS America is incorporated under the laws of Delaware and is a wholly owned subsidiary of the Company. In January 2000, we, together with others, established e-Mobilis. e-Mobilis was incorporated in Israel, and we initially held 80.2% of its issued shares. During 2001, we acquired the remaining 19.8% interest in e-Mobilis, and e-Mobilis' operations were integrated into ours. For additional information, see the section entitled Related Party Transactions in this prospectus. In July 2000, we established TiS B.V., a wholly owned subsidiary incorporated under the laws of the Netherlands, with operating branches in the United Kingdom and Germany. Currently, we are in the process of modifying our corporate structure in Europe, and have established a new fully owned subsidiary in the United Kingdom, which shall fully own a subsidiary in Germany. The activity and assets of our existing European branches will be transferred to the new entities. We do not believe that these changes will have a material effect on our business, prospects and financial condition. We recently formed Top Image Systems, TiS Japan Ltd. in order to strengthen our increased presence in Japan.

### Property, Plant and Equipment

We lease approximately 707 square meters in Ramat Hahayal, Tel Aviv, Israel, for which we pay a monthly rent of approximately \$18,000. The lease expires in November 2007. Our subsidiary in Germany leases approximately 241 square meters of office space in Cologne, Germany for a monthly sum of \$2,750 and our English subsidiary leases approximately 35 square meters of office space in Uxbridge for the amount of \$5,500 per month. We also lease approximately 250 square meters of office space in Tokyo, Japan for approximately \$10,000 per month pursuant to a lease expiring in 2006. All other lease agreements other than for our Israeli headquarters will either expire or be renewed during 2004.

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**Management's discussion and analysis of financial conditions and results of operations.**

The following discussion and analysis have been derived from, and should be read in conjunction with, our consolidated financial statements, related notes and other financial information incorporated herein by reference.

**General**

We derive revenue from the sale of products and solutions and also from service and maintenance agreements.

Our sales to resellers, value added resellers, distributors and system integrators are made on credit terms and we do not hold collateral to secure payment. The terms of the agreements with these resellers, value added resellers, distributors and system integrators do not provide the resellers, value added resellers, distributors and system integrators with the right to return the purchased products or solutions. Payment with respect to such sales is generally due within 30 to 150 days following receipt of an invoice. A default in payment by one or more of our resellers, value added resellers, distributors and system integrators could adversely affect our business, results of operations, and financial condition. We cannot assure you that uncollectible receivables will not exceed our reserves. Any significant increase in uncollected accounts receivable beyond reserves could have a material adverse effect on our business, results of operation, and financial condition.

As a result of our strategy of pursuing strategic alliances with value added resellers, distributors and system integrators, most of our revenues are derived from such alliances. During the years ended December 31, 2001, 2002 and 2003, revenues deriving from value added resellers, distributors and system integrators accounted for approximately 76%, 72% and 51%, respectively, of our revenues, mainly because our direct sale to the Swiss Post Finance.

Historically, we have recognized a substantial portion of our revenues from product sales. During the years ended December 31, 2001, 2002 and 2003, product revenues accounted for approximately 83%, 82%, and 75% respectively, of revenues, while service revenues accounted for approximately 17%, 18%, and 25% respectively, of revenues. In 2001, sales of *AFPSPro*<sup>TM</sup> accounted for 42% of our product sales and for approximately 35% of our revenue; sales of *eFLOW*<sup>TM</sup> accounted for 54% of our product sales and for approximately 45% of our revenue. In 2002, sales of *AFPSPro*<sup>TM</sup> accounted for 25% of our product sales and for approximately 21% of our revenue; sales of *eFLOW*<sup>TM</sup> accounted for 69% of our product sales and for approximately 57% of our revenue. In 2003, sales of *AFPSPro*<sup>TM</sup> accounted for 1% of our product sales and for approximately 1% of our revenue; sales of *eFLOW*<sup>TM</sup> accounted for 95% of our product sales and for approximately 71% of our revenue.

**Quarterly Results; Seasonality**

Our sales cycle for *AFPSPro*<sup>TM</sup> as well as *eFLOW*<sup>TM</sup> ranges from 9 to 12 months. These sales cycles vary by customer and could extend for longer periods depending on the time required by the customer to evaluate the utility of the applicable product to its operations. Our operating results could vary between periods as a result of this fluctuation in the length of our sales cycles, the purchasing patterns of potential customers, the timing of introduction of new products and product enhancements introduced by us and our competitors, technological factors, variations in sales by distribution channels, competitive pricing and generally non-recurring product sales. Consequently, our product revenues may vary significantly by quarter. During 2001, 25% of our revenues in the second quarter were from Politec, a system integrator in Brazil, and 28% of our revenues in the third quarter were from Unisys, another system integrator in Brazil, while each of the above accounted for only 8% of our revenues on an annualized basis. During 2002, 30% of our revenues in the first quarter were from Schneider Logistics, a customer in the United States, while it only accounted for 10% of our annual revenues. During 2003, 32% of our revenues in the third quarter were from Swiss Post Finance, a customer in Switzerland, which accounted for 17% of our 2003 annual revenues.

**Geographical Considerations**

Revenues from the sale of products, solutions and services outside of Israel accounted for approximately 98%, 99%, and 99% of our revenues during the years ended December 31, 2001, 2002 and 2003 respectively. More specifically, the percentage of our product sales occurring in various geographic regions has fluctuated significantly in the past and is likely to continue to do so in the future. During the years ended December 31, 2001, 2002 and 2003 the percentage of our product sales in the Far East (including Japan) was 35%, 34%, and 21% respectively. During those same years, our product sales in North America were 11%, 15%, and 1% respectively of total sales. During those same years, product sales revenues from Europe represented 18%, 41%, and 69% respectively of total sales. As a result of the fluctuation in product sales in various geographic regions, we are subject to the risks associated with international sales, including economic and political instability, shipping delays, customs duties, export quotas and other trade restrictions, any of which could have a significant impact on our ability to deliver products on a competitive and timely basis and exacerbate the risks inherent in our business. While we have not encountered significant difficulties in connection with the sales of our products in international markets, the future imposition of, or significant increases in, the level of custom duties, export quotas or other trade restrictions could have an adverse effect on us.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Israel, or Israeli GAAP. Israeli GAAP vary in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Application of U.S. GAAP would have affected our results of operations and shareholders' equity for each of the years in the three-year period ended December 31, 2003 to the extent summarized in Note 18 to our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2003, incorporated herein by reference.

We believe that several accounting policies applied in the preparation of our consolidated financial statements may be considered critical because they are most important to the portrayal of our financial condition and results, and they require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under present circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies require our more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Revenue Recognition*

We derive revenue from primarily two sources: sales of software licenses and provision of services. Service revenues include contracts for software maintenance and technical support, consulting and training.

We apply the provisions of Statement of Position ( SOP ) 97-2, Software Revenue Recognition (as amended by SOP 98-4 and SOP 98-9) and related interpretations to all transactions to recognize revenue.

We allocate revenue from software arrangements involving multiple elements to each element based on the relative fair values of the elements. The determination of fair value of each element in multiple element arrangements is based on the price charged when a similar element is sold separately.

A typical solution includes software licenses, maintenance, and technical support. Some customer arrangements include training and consulting. Maintenance includes unspecified updates on an if-and-when available basis, and support includes telephone support, and bug fixes or patches. Training consists of courses taught by our instructors at our facility or at the customer's site. Consulting consists primarily of product installation, and tailoring the product to the customer's needs.

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We have analyzed all of the elements included in our multiple-element arrangements and determined that we have vendor specific objective evidence of fair value to allocate revenue to the different services. Accordingly, assuming all other revenue recognition criteria are met, revenues from licenses are recognized upon delivery of the software license in accordance with SOP 98-9. Revenues from maintenance and support are recognized ratably over the term of the agreement. Revenue for consulting and training is recognized as the services are performed.

Our criteria for revenue recognition are as follows:

*Persuasive Evidence of an Arrangement Exists.* It is our customary practice to have a written contract, which is signed by both the customer and us, or a purchase order from our customers, prior to recognizing revenue from an arrangement.

*Delivery Has Occurred.* Our software is physically or electronically delivered to the customer. If undelivered products or services exist that are essential to the functionality of the delivered product in an arrangement, delivery is not considered to have occurred.

*The Vendor's Fee is Fixed or Determinable.* The fee our customers are to pay for the products or services is negotiated prior to the inception of the arrangement. Therefore, the fees are considered to be fixed or determinable at the inception of the arrangement. Arrangements with payment terms subject to any condition are not considered to be fixed or determinable until such condition is fulfilled.

*Collection is Probable.* Probability of collection for our customer's debts is assessed by management on a customer-by-customer basis. This assessment is based, among other factors, on actual payment by the customer, general reputation of the customer in the market, and the history of relations between us and the customer.

License revenues from reseller arrangements are recognized upon delivery when payment is not dependent on third party collection by the reseller.

### *Trade Receivables*

Trade receivables are recorded at cost, less the related allowance for doubtful trade receivables. Management considers current information and events regarding the customer's ability to repay its obligations and evaluates accounts receivable to be impaired when it is probable that we will be unable to collect all amounts.

The balance sheet allowance for doubtful debts for all the periods through December 31, 2003 is determined as a specific amount for those accounts the collection of which is uncertain.

In 2003, an allowance for doubtful accounts in the amount of \$339,495 was made for specific trade receivables as compared to \$468,525 in 2002. The decrease in the allowance for doubtful accounts derives mainly from amounts stemming from the United Kingdom and India, against which we were fully reserved by the end of 2002, and which were written off during 2003.

### *Government Grants*

With respect to the participation of the Israeli government in software research and development cost, we are committed to pay the Israeli government royalties as a percentage of revenues from the sale of the supported software.

### *Research and Development Costs*

Research and development costs, net of participations and grants received, are charged to statement of operations as incurred.

**Recently Enacted Accounting Pronouncements**

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS No. 150 shall be effective for financial instruments entered into or modified after May 31, 2003 and otherwise shall be effective beginning in our first quarter of fiscal year 2004. Upon adoption of SFAS No. 150, there was no impact on the Company's consolidated results of operations or financial position.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN No. 46). The objective of FIN No. 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN No. 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period ending after March 15, 2004. Upon adoption of FIN No. 46, there was no impact on the Company's consolidated results of operations or financial position.

**Results of Operations**

The following discussion and analysis should be read in conjunction with the section entitled Selected Financial Data in this prospectus and the consolidated financial statements, related notes and other financial information included in our annual report on Form 20-F for the year ended December 31, 2003 incorporated herein by reference.

***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002***

*Revenues.* Total revenues for the year ended December 31, 2003 amounted to \$8,319,002 compared to \$7,799,093 for the year ended December 31, 2002. Product sales decreased by \$212,822, or 3%, from \$6,423,348 in 2002 to \$6,210,526 in 2003, mainly because of no product revenues in Japan during 2003.

*Cost of Revenues.* Cost of revenues decreased 22% from \$3,005,463 in 2002 to \$2,339,790 in 2003 primarily as a result of the cost cutting measures that took effect during 2002, as well as the material reduction in payments to the Office of the Chief Scientist. As a percentage of our revenues, cost of revenues decreased from 39% in 2002 to 28% in 2003.

*Research and Development.* During 2003, our development efforts were concentrated on the semi-structured module capabilities, and its different applications. Gross research and development expenses aggregated \$863,209 for 2003 compared to \$1,340,408 for 2002. The decrease is mainly due to a decrease in salary expenses resulting from the cost cutting measures implemented during 2002.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased from \$7,150,617 in 2002 to \$5,818,426 in 2003. This decrease was primarily due to a material decrease of salary expenses, and marketing expenses. During the fourth quarter of 2002, the Company implemented several cost cutting measures targeted at reducing staff and other expenses during coming years, which had only a partial effect during 2002, but had a noticeable impact during 2003.

*Financing Income.* Financing income for the year ended December 31, 2003 was \$98,376, compared with \$187,318 in the year ended December 31, 2002. This decrease is primarily attributable to the combination of the decrease of interest rates in the United States and Israel and the increase in our line of credit.

*Net Loss.* As a result of the foregoing, our loss was \$604,047 in the year ended December 31, 2003, compared to a loss of \$3,827,788 in the year ended December 31, 2002.



**Year Ended December 31, 2002 Compared to Year Ended December 31, 2001**

*Revenues.* Product sales decreased by \$3,490,503, or 35%, from \$9,913,851 in 2001 to \$6,423,348 in 2002 primarily as a result of the effects of the worldwide economic slowdown in information technology (IT) markets. Total revenues for the year ended December 31, 2002 amounted to \$7,799,093 compared to \$11,959,249 for the year ended December 31, 2001.

*Cost of Revenues.* Cost of revenues decreased 2% from \$3,072,333 in 2001 to \$3,005,463 in 2002 primarily as a result of lower sales. As a percentage of our revenues, cost of revenues increased from 26% in 2001 to 39% in 2002. This decrease in our margins is primarily a result of the inflexible nature of certain expenses such as salaries and third party's license expenses that do not decrease materially as revenues decrease.

*Research and Development.* During 2001, the Company continued the development of *eFLOW*<sup>TM</sup>, which began in 1999, as well as the development of its modules for semi-structured forms and mobile capabilities. During 2002, our efforts were concentrated mainly on the semi-structured module capabilities, while during October 2002 the efforts towards the mobile capabilities were halted. Gross research and development expenses aggregated \$1,340,408 for 2002 compared to \$2,198,628 for 2001. The decrease is mainly due to expenses attributed to e-Mobilis, for which operation and headcount decreased materially, and was integrated into our other operations. By the end of 2002, all research and development efforts previously concentrated in e-Mobilis were stopped.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased from \$9,094,622 in 2001 to \$7,150,617 in 2002. This decrease was primarily due to a material decrease of marketing expenses, the provision for bad and doubtful debts, and commissions for third parties. During the fourth quarter of 2002, the Company implemented several cost cutting measures targeted at reducing staff and other expenses during coming years, which had a partial effect during 2002, and will have a greater impact during future years.

*Restructuring costs and other special charges.* During October 2002, we adopted and began the execution of a restructuring plan. Pursuant to such plan, our personnel was reduced in size. Furthermore, certain positions were eliminated, while the job descriptions of other positions were altered. In accordance with the plan, we implemented lay-offs mainly in our headquarters located in Israel that included, among others, four employees in management positions. Costs related to the restructuring plan consist mainly of employee salaries and vehicle expenses during the advance notice period. Expenses amounted to approximately \$314,000 in 2002 and \$706,000 in 2001 in the aggregate, which include approximately \$53,000 related to benefits to which an officer of the Company is entitled following the termination of his employment. Such benefits are detailed in the section entitled Compensation in this prospectus.

*Financing Income.* Financing income for the year ended December 31, 2002 was \$187,318, compared with \$287,197 in the year ended December 31, 2001. This decrease is primarily attributable to the combination of the decrease of interest rates in the United States and the decrease in our cash balances.

*Net Loss.* As a result of the foregoing, our loss was \$3,827,788 in the year ended December 31, 2002, compared to a loss of \$2,791,249 for the year ended December 31, 2001.

**Impact Of Currency Fluctuation And Inflation**

Most of our product and service revenues from transactions outside of Israel are denominated in U.S. dollars, and revenues from transactions in Israel are denominated in NIS but are linked to the U.S. dollar exchange rate. In the early to mid 1980s, Israel's economy was subject to a period of very high inflation. However, inflation was significantly reduced by the late 1980s due primarily to government intervention. The annual rate of inflation in Israel was 1.3%, 0%, 1.4%, 6.5%, and 1.9% in 1999, 2000, 2001, 2002 and 2003, respectively. The dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by devaluation of the NIS in relation to the dollar. For example, during the years 2001 and 2002, the devaluation of the NIS against the dollar, which amounted to 9.28% and 7.27% accordingly, exceeded the inflation rate for the same periods. On the other hand, the negative inflation rate for 2003 of 1.9% exceeded the devaluation of the dollar against the NIS, which amounted to 7.56%. The increase in the dollar cost of our operations in Israel relates primarily to the costs of salaries in Israel, which constitute a substantial portion of our expenses and are paid in NIS. In addition, inflation in Israel will have a negative effect on the profitability to our contracts under which the Company is to receive payment in dollars or other non-Israeli currencies while incurring expenses in NIS (some of which are linked to the Israeli consumer price index), unless such inflation is offset by a devaluation of the NIS. Inflation in Israel and currency fluctuations will also have a negative effect on the profitability to our fixed price contracts under which the Company is to receive payment in NIS. A devaluation of the NIS in relation to the dollar will have the effect of decreasing the dollar value of any assets of the Company, which consist of receivables payable in NIS (unless such receivables are linked to the dollar). Such a devaluation would also have the effect of reducing the dollar amount of liabilities of the Company which are payable in NIS (unless such payables are linked to the dollar). Conversely, any increase in the value of the NIS in relation to the dollar will have the effect of increasing the dollar value of any unlinked NIS assets of the Company and the dollar amounts of any unlinked NIS liabilities of the Company.



Because exchange rates between the NIS and the other currencies, in which the Company conducts business, including the dollar, fluctuate continuously (albeit with a historically declining trend in the value of the NIS), exchange rate fluctuations and especially larger periodic devaluations have an impact on our profitability and period-to-period comparisons of our results. Such impact is recorded in our financial statements as financial income/expense. Favorable exchange rates will tend to increase reported financial income, and unfavorable exchange rates will tend to reduce reported income. To date, the Company has not engaged in currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. In the future, the Company may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the dollar against the NIS; however, we cannot assure you that such measures will adequately protect the Company from material adverse effects due to the impact of inflation in Israel. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies into NIS were imposed, the Company's business could be adversely affected.

**Political and Economic Conditions in Israel Affecting our Business**

Since our principal offices and manufacturing facilities and many of our suppliers are located in Israel, political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. There has been a marked increase in such hostility and a significant deterioration of Israel's relationship with the Palestinian community since October 2001. Continuing or escalating hostilities in the region may have an adverse affect on our business, including our ability to develop, manufacture and market our products.

Some of our executive officers and employees in Israel are obligated to perform up to 36 days of military reserve duty annually. Moreover, in light of escalating hostilities and threats of armed conflict in the Middle East since October 2001, our executive officers and employees may be called for active military duty for an unlimited period of time. Our operations could be disrupted by the absence for a significant period of our executive officers or key employees as a result of military service. Any disruption in our operations could adversely affect our ability to develop and market products.

***Economic Conditions***

Israel's economy has experienced numerous destabilizing factors, including a period of rampant inflation in the early to mid 1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. The Israeli government has, for these and other reasons, intervened in the economy by utilizing fiscal and monetary policies, import duties, foreign currency restrictions and control of wages, prices and exchange rates. The Israeli government has periodically changed its policies in all these areas.

The Israeli government's monetary policy contributed to relative price and exchange rate stability in recent years, despite fluctuating rates of economic growth and a high rate of unemployment. We cannot assure you that the Israeli government will be successful in its attempts to keep prices and exchange rates stable. Price and exchange rate instability may have a material adverse effect on the Company's business.

### **Trade Relations**

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is also a member of the World Trade Organization and is a signatory of the Global Agreement on Trade in Services and the Agreement on Basic Telecommunications Services. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

Israel and the European Economic Community, now known as the European Union, concluded a Free Trade Agreement in 1975. This agreement confers advantages on Israeli exports to most European countries and obligates Israel to lower its tariffs on imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a free trade area. The free trade area has eliminated all tariff and some non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the EFTA, which includes Austria, Norway, Finland, Sweden, Switzerland, Iceland and Liechtenstein, established a free trade zone between Israel and the EFTA nations. In recent years, Israel has established commercial and trade relations with a number of other nations, including Russia, China, Turkey and other nations in Eastern Europe and Asia. We cannot assure you that the recent increase of armed conflict and hostility and the significant deterioration of Israel's relationship with the Palestinian community will not have an adverse affect on the Company's ability to conduct trade in the international market.

### **Trends**

Strategy Partners, an independent research firm, anticipates that growth will continue in the data capture market. However, they anticipate that there will be a move toward integrated software solutions instead of individual data capture products. They also predict that the need for applications will increase substantially. Outsourcing with respect to documents solutions is expected to increase. The industry is also expected to continue to move toward consolidation. We are addressing this trend by solidifying our relationships with our existing partners and seeking to become the preferred data capture solution provider for many large integrated system providers.

### **Liquidity and Capital Resources**

In May 2000, we closed a private placement of our ordinary shares in which Charter, an affiliate of Charterhouse, purchased 2,000,000 ordinary shares for the consideration of \$15,000,000. The private placement contributed greatly to our liquidity.

As of December 31, 2003, we had current assets of \$11,150,921, cash and cash equivalents of \$5,854,436, accounts receivable of \$4,606,254, other receivables of \$413,716 and aggregate current liabilities of \$3,797,808. We had working capital of \$7,353,113 at December 31, 2003 compared to working capital of \$7,739,509 at December 31, 2002.

On September 24, 2004 we sold 2,524,351 ordinary shares of the Company at a purchase price of \$3.16 per share to institutional investors for gross proceeds to the Company of approximately \$8 million. The investors also received warrants to purchase up to an additional 1,262,188 ordinary shares, with an exercise price of \$4.26 per share. See the section entitled "Recent Private Placement" for a more detailed description of the transaction.

In our opinion, our working capital is sufficient for our present operating requirements and capital expenditures at least over the next 12 months, although we cannot assure you that this will remain true in the future.

Cash used in operating activities in 2003 was \$2,516,369, compared to cash used in operating in 2002 of \$1,983,285. During 2003, we decreased our trade payables by \$46,644, decreased our accrued liabilities and other payables by \$536,910, increased our accounts receivable by \$1,457,473 and increased our other receivables by \$114,552. Cash provided by investing activities in 2003 was \$185,250, compared to cash used in investing activities in 2002 of \$199,028. Cash provided by financing activities in 2003 was \$784,666, compared to cash provided by financing activities in 2002 of \$164,037.

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We currently have a short-term line of credit with First International Bank of Israel. The total amount available under this line of credit is the lesser of \$1,500,000 and 75% of certain eligible trade receivables. As of December 31, 2003, we had approximately \$870,000 available under this line of credit. The revolving line of credit in NIS bears interest at a rate of prime + 0.30% to 1% (As of December 31, 2003, prime rate was 6.7%). The line of credit in US dollars bears interest at a rate of Libor + 2% (As of December 31, 2003, Libor rate was 1.125%). Any indebtedness under this credit line is payable on demand and secured by a floating charge on our assets. We are required to maintain certain financial ratios and our ability to issue securities is restricted. In the event that we default under the line of credit, the bank could declare our indebtedness immediately due and payable and, if we are unable to make the required payments, foreclose on our assets. Moreover, to the extent that our assets continue to secure such indebtedness, such assets will not be available to secure additional indebtedness unless approved by the Bank.

### *Contractual Obligations and Commitments*

The following is a table giving details regarding our contractual obligations as of December 31 2003:

Contractual Obligation	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligation	1,327,124	454,576	669,724	202,824	
Purchase Obligation	300,000	300,000			
Total	1,627,124	754,576	669,724	202,824	

We also have a long-term liability on our balance sheet as of December 31, 2003 in the amount of \$190,916 related to employee severance obligations mandated by Israeli law. As we cannot determine the period, if any, during which we will be required to make any payments in respect of that liability, it is not reflected in the table above.

Our contractual obligations and commitments at December 31, 2003 principally include obligations associated with our outstanding indebtedness, future minimum operating lease obligations and contractual and legal obligations to employees and officers' severance expense. Such obligations are detailed in Notes 9, 10, and 12 to the consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2003, incorporated herein by reference as well as the section entitled "Compensation" in this prospectus. We expect to finance these contractual commitments from cash on hand and cash generated from operations.

**Research and Development, Patents and Licenses, etc.**

During the previous year, we gradually and substantially increased our investment in research and development in order to develop new solutions and products. During 2002, subsequent to the integration of e-Mobilis activity, efforts toward developing a mobile solution decreased materially, until finally totally halted during the fourth quarter of 2002 after our determination that concentrating on semi structured and other solutions would prove more profitable. Due to the above and the decision to focus on the structured and semi-structured forms solution, our research and development headcount decreased significantly. As a result, gross research and development expenses for 2003 were \$863,209 compared to \$1,340,408 for 2002. We intend to continue various research and development efforts to satisfy the needs of our customers and potential customers. These efforts include refinements of and enhancements to our products, such as improvements in image enhancement, automatic forms recognition, automatic forms removal, machine print and handwritten character recognition, as well as special purpose algorithms.

Our research and development efforts have led to the development of our current solutions technology, *eFLOW Unified Content Platform*<sup>TM</sup>. Our latest research and development efforts have concentrated on the semi-structured forms processing, resulting in the development of our *Freedom* product. These developments are enhancing, and we believe they will continue to enhance, our ability to compete in complicated projects as a solution provider for all kind of forms and all types of information. *Freedom* and its different applications fit well with our plans to keep pace with the trend towards the ultimate integration of all forms and formats of information entering the organization.

**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****Directors and Senior Management**

The directors and senior management of the Company and any employees such as scientists or designers upon whose work the Company is dependent are as follows:

<b>Name</b>	<b>Age</b>	<b>Position with Company</b>
Thomas C. Lavey	60	Chairman of the board of directors
Ido Schechter	42	Chief Executive Officer
Arie Rand	44	Chief Financial Officer
Gideon Shmuel	32	Vice President of Sales Europe Middle East and Asia
Oded Leiba	33	Vice President of Engineering
Ofir Shalev	32	Vice President of Research and Development
Victor Halpert	43	External Director
Zamir Bar Zion	46	External Director
Izhak Nakar	52	Director
William M. Landuyt	48	Director
Elie Housman	67	Director
Phyllis Haberman	55	Director

*Thomas C. Lavey* became a Director of the Company in August 2002 and the Board elected him as non-Executive Chairman at the same meeting. Since September 2003, Mr. Lavey has served as Executive Vice President of Global Sales and Business Development at Taleo Inc. Previously Mr. Lavey served as Executive Vice President, Worldwide Field Operations of MS2, Inc, which provides product life cycle automation software. Prior to joining MS2, Mr. Lavey was senior vice president of worldwide operations at Extricity, which became part of Peregrine Systems and provided B2B relationship management software. Mr. Lavey also served as senior vice president at i2 Technologies and, from 1994 through 1999, he served as vice president of application sales at Oracle Corporation. Mr. Lavey has a bachelor's degree in mathematics from Penn State University and an MBA from the University of Southern California.

*Ido Schechter* has been the CEO of the Company since January 2002. From January 2001 until he became CEO, Dr. Schechter was Vice President of TiS ASP, an initiative of TiS to offer data collection services via the Internet, using the *eFLOW* platform solution. Prior to that Dr. Schechter had been the Company's Vice President of Sales since August 1996. From January 1995 until August 1996, Dr. Schechter served as General Manager of Super Image, a former affiliate of the Company, which operated a form processing service bureau. From August 1993 to December 1994, Dr. Schechter oversaw the start-up of automatic form processing services at Israel Credit Cards, Ltd. From 1991 to 1993, Dr. Schechter was a research scientist at the Horticultural Research Institute of Ontario, Canada. Dr. Schechter is the recipient of eight Honors and Scholarships, has published or presented more than twenty-five articles and is a Captain in the Israeli Air Force. Dr. Schechter received his Ph.D. and M.Sc. in Plant Physiology from the University of Guelph in Ontario, Canada and his B.Sc. from the Hebrew University in Israel.

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*Arie Rand* joined TiS as its Chief Financial Officer in April 2001 from Tescom, a high tech company with 600 employees and several subsidiaries worldwide, where he served as Chief Financial Officer from September 1996 through March 2001. Prior to Tescom, from September 1991 to June 1996 Mr. Rand served as a senior manager in the finance department of Delta Galil Industries, a major industrial company. Mr. Rand also has several years of experience at Almagor & Co., one of Israel's leading accounting firms. He holds an MBA in Finance from Bar Ilan University.

*Gideon Shmuel* joined us as our Vice President of Sales for Europe, Middle East and Asia during 2001 from Pangea Ltd (UK), where he was a Senior Vice President. Pangea provides telecommunications infrastructure throughout Europe. Prior to that, Mr. Shmuel was Managing Director of LCR Telecom UK, a company that provides aggregated data, voice, Internet and mobile communications services to the corporate market during the years 1998 to 2000. Mr. Shmuel holds an MA in Marketing Management from Middlesex University Business School in London.

*Oded Leiba* is Vice President of Engineering, and has held that position since May 2001. From May 1999 to May 2001, Mr. Leiba was the Company's representative in Japan and worked with its exclusive distributor, EDMS for a period of three years. Before joining TiS, Mr. Leiba was employed as a senior level programmer at VISA where he was involved in the installation of the first of the Company's forms-processing system (AFPS) from the client side. Oded Leiba holds a Bachelor of Arts in Computer Science and Business Management from Tel Aviv University.

*Ofir Shalev* has served as Vice President of Research and Development since October 2002. Prior to his promotion to Vice President of Research and Development, Mr. Shalev served as the Company's Director of Recognition for three years. During this period, Mr. Shalev was responsible for the development of TiS's semi-structured data module that plugs into the *eFLOW Unified Content Platform*<sup>™</sup>. In this position, Mr. Shalev was responsible for maintaining TiS's technological advantages over its competitors in the recognition arena. Before joining TiS, Mr. Shalev served as a senior development leader at the Israeli Defense Force. Mr. Shalev holds a Bachelor of Science degree from the Technion, the Israeli Institute of Technology, and is a candidate for a Master of Science degree in Computer Science from the Open University in Israel.

*Victor Halpert* was elected to serve as an external director of the Company at the shareholders' meeting in December 2003. Mr. Halpert has served in various positions in the field of equity research. From June 1999 through January 2003 Mr. Halpert served as director for Salomon Smith Barney in New York, NY. From January 1998 through May 1999 Mr. Halpert served as vice president (equity research, telecommunications and technology) for Robertson Stephens, New York, NY. From January 1995 through December 1997, Mr. Halpert served as vice president for Salomon Brothers Inc. New York, New York. Mr. Halpert has a bachelor's of science degree in Accounting from State University of New York, College at New Paltz, NY, a Master of Science in Accounting from the University of Illinois at Chicago, Graduate Business School and an MBA from the University of Chicago Graduate Business School.

*Zamir Bar-Zion* was elected to serve as an external director of the Company at the shareholders' meeting that took place in December 2003. Mr. Bar-Zion served as Managing Director for Nessuah Zannex & Co./USBancorp Piper Jaffray from 1998 through 2001. From 1995 to 1998 Mr. Bar-Zion served as a private financial consultant. Mr. Bar-Zion received his B.Sc. in Computer Science and Finance from New York Institute of Technology, an MA from the Department of Finance from Pace University, New York, and a PMD from the Program Management Development Program at Harvard University. Currently, Mr. Zamir represents Piper Jaffrey in Israel.

*Izhak Nakar* founded the Company and served as its Chief Executive Officer from inception until December 2001. He has been a director of the Company since 1991. In 1997 he initiated an entrepreneurial venture, TopGuard that was later sold to Elron. Mr. Nakar served in the Israel Air Force from 1970 to 1987, where he led various large-scale highly technical development projects, including leading a development team that worked in cooperation with the U.S. Air Force. He received his B.Sc. in Computer Science from Bar Ilan University in 1982, and an MBA from Tel-Aviv University in 1984. Mr. Nakar is a recipient of the Israel Defense Award, bestowed annually by the President of Israel, for the development of high-tech systems in the field of intelligence for the Israeli Defense Forces. He also received the Man of the Year Award in Business and Management ( '95-'96) in recognition of his business accomplishments and contributions to the growth and development of Israeli high-tech companies.



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*William M. Landuyt*, has been a director of the Company since March 2, 2004. Mr. Landuyt has been a Principal at Charterhouse Group International, Inc. since December 2003. He served as Chairman of the Board and Chief Executive Officer of Millennium Chemicals Inc. from its demerger from Hanson Plc ( Hanson ) in October 1996 until July 2003. He had served as the President of that company from June 1997 until that date. Mr. Landuyt was Director, President and Chief Executive Officer of Hanson Industries (which managed the United States operations of Hanson until the demerger) from June 1995 until the demerger, a Director of Hanson from 1992 until September 29, 1996, Finance Director of Hanson from 1992 to May 1995, and Vice President and Chief Financial Officer of Hanson Industries from 1988 to 1992. He joined Hanson Industries in 1983. He was a director of Bethlehem Steel Corporation from April 1997 until October 2003.

*Elie Housman* has been a director of the Company since May 2000. Mr. Housman joined InkSure in February 2002 as Chairman. Mr. Housman was a principal at and consultant to Charterhouse from 1989 until June 2001. At Charterhouse, Mr. Housman was involved in the acquisition of a number of companies with total sales of several hundred million dollars. Prior to Charterhouse, he was co-owner of AP Parts, a \$250 million automotive parts manufacturer. Mr. Housman was also the Chairman of Novo Plc. in London, a leading company in the broadcast storage and services industry. At present, Mr. Housman is a director of three public companies, deltathree, Inc., ICTS International, N.V., a prominent aviation security company and EVCI Career Colleges Incorporated. In addition, Mr. Housman serves as a director of Jazz Photo, Inc., and Bartech Systems International, Inc., which are both privately held companies in the United States.

*Phyllis Haberman* has been a director of the Company since May 2000. She has been a partner of Charterhouse since 2002 and a Senior Vice President since January 1997. From 1988 through December 1996, Ms. Haberman was a Vice President of Charterhouse.

There are no familial relationships between any of the persons named above. Elie Housman and Phyllis Haberman were initially appointed to the Board seats by Charter pursuant to the terms of the investment by Charter in the Company and a voting agreement with Mr. Nakar. For further details, see the sections entitled Major Shareholders and Related Party Transactions in this prospectus. Mr. Housman left the employ of Charterhouse in 2001. Ms. Haberman and Mr. Landuyt disclaim beneficial ownership of the ordinary shares beneficially owned by Charter.

### Compensation

For the year ended December 31, 2003, the compensation paid, and value of benefits in kind granted, to Ido Schechter, our Chief Executive Officer, was \$189,689. The compensation paid to all other persons, as a group, who were, at December 31, 2003, directors or members of our administrative, supervisory or management bodies during that time was \$637,842. In addition, in 2003 members of that group were granted an aggregate of options to purchase 37,500 ordinary shares under our ESOP 2003 with an exercise price of \$1.31 per share. For further details, see the section entitled Directors, Senior Management and Employees in this prospectus. The compensation paid does not include (i) reimbursement of directors' expenses, (ii) \$138,007, which has been accrued to provide pension, retirement, severance, vacation or similar benefits, and (iii) amounts expended by us for automobiles made available to our officers (\$62,551) and other expenses (including business travel, and professional and business association dues and expenses) reimbursed to officers.

In connection with the private placement of our shares and the investment by Charter, Izhak Nakar's employment agreement was amended during 2000. First, an amendment approved at the extraordinary annual meeting held on March 10, 2000 provided that Mr. Nakar's annual base salary (not including manager's insurance, retirement and other benefits added to the base salary) was \$216,000, that he would be eligible for an annual bonus of up to 50% of his annual base salary, that the term of his employment agreement would be for 18 months after the closing date of Charter's investment of May 8, 2000), and an automatic renewal thereafter for successive 12 months periods, and that he would be entitled to certain rights including the right to receive a lump sum payment equaling his annual salary upon termination for any reason. In the annual meeting held on October 5, 2000, a further amendment to Mr. Nakar's employment agreement was approved providing that:

1. Upon resignation by Mr. Nakar in connection with a merger, acquisition, sale of all or substantially all of assets or other change of control of us or, Change of Control, (i) Mr. Nakar would be entitled to receive a lump sum payment in cash equal to three times the highest annual salary plus bonus received (or scheduled to be received) by Mr. Nakar during any annual period covered by the employment agreement; (ii) we would be required to continue the benefits granted to Mr. Nakar and his family (at the same level in effect for one year prior to the date of termination or resignation) for a period of three years; (iii) the restrictions on competition contained in Section 8 of Mr. Nakar's current employment agreement would be void and of no effect; and

2. Upon termination of Mr. Nakar's employment with us for any reason (other than a resignation by Mr. Nakar in connection with a Change of Control or a termination of Mr. Nakar's employment for Cause), subject to the immediately following paragraph, (i) Mr. Nakar would be entitled to receive payments in cash, payable in eighteen equal monthly installments commencing immediately after termination of Mr. Nakar's employment, equaling in the aggregate 1.5 times the highest annual salary plus bonus received (or scheduled to be received) by Mr. Nakar during any annual period covered by the Agreement; and (ii) we would be required to continue all of the benefits granted to Mr. Nakar and his family (at the same level in effect for one year prior to the date of termination or resignation) for a period of eighteen months).

For so long as we did not default on our obligations set forth in paragraph 2 above, Mr. Nakar was subject to certain restrictions on competition contained in his employment agreement. Those restrictions lapsed in May 2004.

In accordance with the foregoing and as a result of Mr. Nakar's resignation of his employment, we recorded a non-recurring severance provision, the expenses in our financial statements for which were in the amount of approximately \$759,000 during prior years. See the immediately following section for a description of a consulting arrangement with Mr. Nakar.

## **Board Practices**

### **Board of Directors**

All directors (other than external directors) currently hold office until the next annual meeting of shareholders and until their successors are duly elected and qualified. External directors currently hold office for three years from their appointment (in December 2003) and until their successors are duly elected and qualified at the relevant annual meeting. The external directors may be elected for one additional three-year period. The Company, at its shareholders meeting held on December 18, 2003, approved a monthly payment to Mr. Thomas C. Lavey in the amount of \$2,000 as compensation for his service as a director and Chairman of the Board, and that Mr. Victor Halpert, Mr. Zamir Bar-Zion for their service as external directors, members of Audit Committee and the board of directors and Mr. Elie Houseman for his service as member of the Audit Committee and board of directors receive as compensation a payment in the amount of 15,750 NIS per annum. In addition each of the above directors shall receive an amount of 3,000 NIS for each Board and/or Audit committee meeting attended. Mr. Izhak Nakar receives compensation for his service as a member of the board of directors, in the amount of 19,841 NIS per annum and 993 NIS for each Board and/or committee meeting attended. Ms. Phyllis Haberman and Mr. William M. Landuyt waived their right for compensation for their service as directors. We reimburse all of the directors for reasonable travel expenses incurred in connection with their activities on our behalf.

Other than Mr. Nakar, no director or other member of our administrative, supervisory or management bodies has a service contract with us or any of our subsidiaries providing for benefits upon termination of employment. For additional information on Mr. Nakar's arrangement, see the section entitled "Compensation" in the section entitled "Directors, Senior Management and Employees" in this prospectus.

In addition to the above, based on the resolution of the shareholders in a meeting held on December 18, 2003 as further clarified in the shareholders extraordinary meeting held on August 24, 2004, relating to a large-scale transaction between the Company and Toyo Ink Mfg. Co. Ltd. (Japan). Mr. Nakar has become entitled to receive a one time payment of \$100,000 and, in addition, an annual fee of \$100,000 as consideration for consulting services to be provided one week per month for our operation in Japan. At the conclusion of 6 months from the commencement of operation of the Company's new business, discussions shall be conducted regarding the possibility of the Company paying Mr. Nakar a percentage of the income received by the Company from the operations of the new business and, if so resolved at that time, what percentage of such income shall be paid. In addition, should the Company require the active involvement of Mr. Nakar with any other business of the Company, then he shall be paid a fee of \$1,000, plus reimbursement of any expenses, for every business day invested by him with regard to same.

**Audit Committee; Remuneration Committee**

The new Israeli Companies Law (5759-1999), which became effective February 1, 2000, requires that public companies appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company's business and approving related party transactions as required by law. An audit committee must consist of at least three directors, including all of the external directors of the Company. The chairman of the board of directors, any director employed by or otherwise providing services to the Company, and a controlling shareholder or any relative of a controlling shareholder, may not be members of the audit committee.

Our audit committee is governed by an audit committee charter, which is attached to our annual report on Form 20-F for the year ended December 31, 2003 which is incorporated herein by reference.

We are also required by the rules of the NASDAQ Stock Market to establish an audit committee, all of whose members are independent of management, and to adopt an audit committee charter. Our two external directors, Victor Halpert and Zamir Bar-Zion, serve on the audit committee of the board of directors, along with Elie Housman.

In August 2004, the board of directors authorized the establishment of a Compensation Committee. The current members of the Committee are Thomas C. Lavey (Chairman), William M. Landuyt and Izhak Nakar. At the time of establishing the Committee, the board of directors also adopted a Compensation Committee Charter to govern the operation of the Committee. Notwithstanding the provisions of the Compensation Committee Charter, the board of directors resolved to require the Committee to submit its recommendations to the board of directors, which shall be solely authorized to approve the recommendations of the Compensation Committee.

**Employees**

As of October 21, 2004, we employed 48 full-time employees and one part time employee in our headquarters. Five are employed in administration and three in finance, seven in marketing and sales, and 33 in product development and production. In addition, our North American subsidiary employs three full-time persons and one half time person. Our German subsidiary employs 12 full-time persons and one half time person, and our United Kingdom subsidiary employs nine full-time persons. Management believes that its relations with its employees are good.

Certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Associations) are applicable to our employees in Israel by order of the Israeli Ministry of Labor. These provisions concern principally the length of the workday, minimum daily wages for professional workers, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay, and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums.

Pursuant to Israeli law, we are legally required, subject to certain exceptions, to pay severance benefits upon the retirement or death of an employee or the termination of employment of an employee without due cause. We satisfy the majority of this obligation by contributing funds to a fund known as Managers' Insurance. This fund provides a combination of savings plans, insurance, and severance pay benefits to the employee, giving the employee a lump sum payment upon retirement and a severance payment, if legally entitled, upon termination of employment. The remaining portion of this obligation is represented on our balance sheet as Provision for severance pay. The Israeli law has recently been amended to address some of the issues that were, in the past addressed only by the collective bargaining agreements mentioned above, such as procedures for dismissing employees, minimum wages and other issues. In the event of contradiction between a provision of the law and that of a collective bargaining agreement, the principal for interpretation is that the provision which is more favorable to the employee will prevail.

## Share Ownership

### **Board of Directors, Senior Management and Certain Employees**

Mr. Izhak Nakar currently holds in his name 59,174 ordinary shares. These shares represent 0.7% (0.8% on a fully diluted basis) of our outstanding share capital. In addition, Mr. Nakar and members of his immediate family own Nir 4 You Technologies Ltd., an Israeli company that holds 280,000 ordinary shares amounting to 3.2% (2.5% on a fully diluted basis) of our outstanding share capital. Mr. Nakar also holds options to purchase 25,000 ordinary shares (0.22% of our outstanding share capital on a fully diluted basis) at an exercise price of \$2 per share. These options expire three years from the date they were granted. None of the ordinary shares discussed in this section have different voting rights than those of other outstanding ordinary shares.

Charter owns 2,000,000 ordinary shares. Mr. William M. Landuyt and Ms. Phyllis Haberman disclaim beneficial ownership of the ordinary shares owned by Charter.

### **Stock Options**

We have reserved 115,000 ordinary shares for issuance upon exercise of outstanding non-plan share options granted to certain executive officers and key employees all of which have exercise prices of between \$2.77 and \$5.00 per share. Pursuant to the terms of the option grant letters, of the options granted to two employees, options to purchase 25% of the shares became exercisable upon our initial public offering, and options to purchase 25% of the shares are to become exercisable upon each of the first three anniversary dates of the issuance of the options provided that the employees continue to be employed by us on such dates. Of the options granted to these employees, options to purchase 50,000 shares expired when the employees' employment with us ended. Pursuant to the terms of the option grant letters, the options granted to three other employees were to become exercisable in four equal parts upon each of the first four anniversary dates of the issuance of the options provided that the employees continue to be employed by us on such dates. Of the options granted to two of the said employees, options to purchase 12,250 shares expired when their employment with us ended. In order to attract, retain and motivate employees (including officers) who perform services for or on behalf of us, we have three Employee Share Option Plans. The first was established in 1996, the second during the year 2000 and the third was approved during 2003.

#### ***Employee Share Option Plan (1996)***

In September 1996, the board of directors adopted, and our shareholders approved, the Employee Share Option Plan (1996). ESOP 1996 authorizes the granting of options to purchase up to 250,000 ordinary shares, consisting of options intended to qualify as incentive stock options within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended, and options not intended to satisfy the requirements for incentive stock options. At October 21, 2004, options to purchase 107,500 ordinary shares were outstanding under the plan at exercise prices between \$0.52 and \$5.00 per share. All of the outstanding options under the plan become exercisable in four equal parts upon each of the first four anniversaries of the option grant dates. No exercises of options took place during 2003. During 2004, 18,875 options had been exercised and 17,500 had been forfeited through October 21, 2004.

Options granted under ESOP 1996 have terms of up to ten years, provided, however, that options that are intended to qualify as incentive stock options and that are granted to an employee who on the date of grant is a 10% shareholder of us or any subsidiary corporation or parent corporation shall be for no more than a five-year term. Ordinary shares issuable upon the exercise of the options granted under ESOP 1996 will be held in trust for the benefit of the optionee for a period of at least two years after the grant of the options. The exercise price of options granted under ESOP 1996 may not be less than 100% of the fair market value of the ordinary shares on the date of the grant and the exercise price of options granted under future employee share options shall not be less than 85% of the fair market value of the ordinary shares on the date of grant, in each case, as determined by the Board (or the Share Option Committee, if the Board elects to appoint one). In the case of options that are intended to be incentive stock options granted to an employee who, at the date of such grant, is a 10% shareholder of us or any subsidiary corporation or parent corporation, the exercise price for such options may not be less than 110% of the fair market value of the ordinary shares on the date of such grant. The number of shares covered by an option granted under ESOP 1996 is subject to adjustment for stock splits, mergers, consolidations, reorganizations and recapitalizations. Options are non-assignable except by will or by the laws of descent and distribution, and may be exercised only so long as the optionee continues to be employed by us. If the optionee dies, becomes disabled or retires, the right to exercise the option will be determined by the Board (or the Share Option Committee) in its sole discretion. The optionee is responsible for all personal tax consequences of the grant and the exercise thereof. For so long as we are not a U.S. taxpayer, we believe that, other than a 1% stamp tax, no tax consequences will result to us in connection with the grant or exercise of options pursuant to ESOP 1996.

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Upon termination of employment, other than for death or disability, grantees may exercise vested options for three months following termination. ESOP 1996 contains similar provisions in relation to a grantee that becomes disabled or dies, only in these cases, the vested options may be exercised for a period of one year.

On February 28, 2000, we filed a registration statement on Form S-8 regarding ESOP 1996.

Upon adoption of the Employee Share Option Plan (2003) all shares previously available for grant under ESOP 1996 that were not the subject of outstanding options, were transferred to such new plan (see below).

### *Employee Share Option Plan (2000)*

The Employee Share Option Plan (2000) is designed to benefit from, and is made pursuant to, the provisions of Section 102 of the Israeli Income Tax Ordinance (New Version) 1961 and the rules promulgated thereunder ( Section 102 ), as applied prior to the implication of the tax reform in Israel, described elsewhere in this prospectus.

ESOP 2000 is administered by a committee appointed by the board of directors or alternatively the Board itself. The Committee has discretion as to when and to whom and upon what terms to grant options under ESOP 2000. Options under the plan may be granted to any officer or employee of us or of any of our subsidiaries. The Committee will examine various factors when determining to whom to grant options and upon what terms; however, these factors shall always include the grantee's salary and duration of employment with us or our subsidiary.

The options and/or shares issued upon exercise thereof shall be held in trust. The trustee shall act in accordance with our instructions.

A total of 240,000 of authorized but unissued shares were reserved for issuance upon the exercise of options granted pursuant to ESOP 2000 and, as of October 21, 2004, options to purchase an aggregate of 143,500 shares were outstanding. All of the granted options vest over a three-year period and have exercise prices between \$0.99 and \$4.125 per share. The number of shares covered by an option granted under ESOP 2000 is subject to adjustment for stock splits, mergers, consolidations, reorganizations and recapitalizations. During 2004, 5,000 options were exercised and 9,500 had been forfeited through October 21, 2004.

Upon termination of employment, other than for death or disability, grantees may exercise vested options within three months of termination. Unvested options may only be exercised with the consent of the Committee. If employment is terminated by us due to the improper actions of the grantee, all options, whether vested or not, are immediately forfeited. ESOP 2000 contains similar provisions in relation to a grantee who becomes disabled or dies.

On December 19, 2002, we filed a registration statement on Form S-8 regarding ESOP 2000.

Any tax consequences that arise from the grant or exercise of any option are borne solely by the grantee.

Upon adoption of the Employee Share Option Plan (2003) all shares previously available for grant under ESOP 2000 that were not the subject of outstanding options, were transferred to such new plan (see below).

*Employee Share Option Plan (2003)*

An additional stock option plan was approved by the board of directors on May 13, 2003 and by our shareholders at our annual meeting on December 18, 2003. All the shares reserved for grant under ESOP 2000 and ESOP 1996 that were not granted or that were not the subject of outstanding options under those plans were transferred to the new plan. Further, all options under such old plans that expire prior to their exercise according to the conditions detailed therein will be transferred into the new plan. We intend to file a registration statement on Form S-8 to register these shares. We filed the necessary documents with the Israeli tax authorities for the approval of the new option plan on June 4<sup>th</sup>, 2003. Such approval shall provide the grantees the eligibility for certain benefits under Section 102 as revised by the Israeli tax reform.

As of October 21, 2004, options to purchase an aggregate of 207,000 shares were outstanding at exercise prices between \$1.31 and \$2.67 per share.

The board of directors approved the issuance of options to purchase an additional 650,000 ordinary shares pursuant to ESOP 2003, subject to shareholder approval.

As of October 21, 2004, options to purchase 727,292 ordinary shares were available for future grant.

*Issuance of Options to Certain Persons*

In November 2001, the Company issued to Izhak Nakar, our then CEO and Yehezkel Yeshurun, our former Chief Scientist and a former director, options to each purchase 50,000 ordinary shares in exchange for the minority interest held by them in our subsidiary, e-Mobilis. For additional information, see the section entitled "Related Party Transactions" in this prospectus.

During 2003 and in 2004 through October 21, 2004, Mr. Yeshurun and Mr. Nakar had exercised 35,000 options and 25,000 options, respectively.

In November 2002, we issued to Thomas C. Lavey, our Chairman of the Board of directors, options to acquire 20,000 ordinary shares at an exercise price of \$0.46 per share.

**MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

As of October 21, 2004, Charter held 2,000,000 ordinary shares, or 23.0% (17.8% on a fully diluted basis) of our outstanding share capital. At that time, Izhak Nakar held in his name 59,174 ordinary shares, or 0.7% (0.8% on a fully diluted basis) of the outstanding share capital, and Nir 4 You Technologies Ltd., a company owned by Mr. Nakar and his immediate family, held 280,000 ordinary shares, or 3.2% (2.5% on a fully diluted basis) of our outstanding share capital. Except as provided in the Share Purchase Agreement described below, none of these shares have special voting rights attached to them.

Charter acquired its ordinary shares in May 2000 in exchange for a \$15,000,000 investment. Under the terms of the Share Purchase Agreement, the board of directors appointed by the shareholders meeting to serve immediately following the closing was comprised of seven members out of whom Charter designated four. Charter obtained the right to demand registration of its shares on three separate occasions, Charter was granted pre-emptive rights with respect to future issuances of securities by us, and certain informational rights. Charter's right to appoint four of our seven directors was a one-time right only. This right is not attached to the shares purchased by Charter and the entire Board faces re-election at each annual general meeting. Currently two persons nominated by Charter serve on the Board. These are William M. Landuyt and Phyllis Haberman.

In connection with the investment by Charter, certain rights were granted to Mr. Nakar, our then Chief Executive Officer. These included the modification of Mr. Nakar's compensation, as described in the section entitled Compensation in the section entitled Directors, Senior Management and Employees in this prospectus, as well as the granting to Mr. Nakar of the right to demand registration of any or all of the shares held by him in the event that his employment was terminated under certain specific conditions. These rights to demand registration have come into effect following the termination of Mr. Nakar's employment. The grant of these rights was approved by our board of directors, Audit Committee and shareholders. Charter and Mr. Nakar have requested the registration of the resale of the ordinary shares held by them or their affiliates. The Company is registering the resale of those shares in the registration statement of which this prospectus is a part.

In accordance with the foregoing and as a result of Mr. Nakar's resignation from employment, we recorded a non-recurring severance expense in our financial statements in the amount of approximately \$759,000 during prior years. For additional information, see the section entitled Compensation in the section entitled Directors, Senior Management and Employees in this prospectus, and Note 12 to the consolidated financial statements included in our annual report on Form 20-F incorporated herein by reference.

In January 2000, TiS, together with Izhak Nakar, our then CEO, and Yehezkel Yeshurun, our former Chief Scientist and a former director, established e-Mobilis Ltd. as a subsidiary of TiS. The shareholdings in e-Mobilis at that time were as follows: TiS held 80.2%, Mr. Nakar held 9.9% and Mr. Yeshurun held 9.9%. In November 2001, we acquired from Mr. Nakar, and Mr. Yeshurun, their interests in e-Mobilis. The acquisition was in consideration of the issuance to each of them of immediately vested options to purchase 50,000 ordinary shares at an exercise price of \$2.00 per share. These options expire three years from the date they were granted and were valued at \$90,000 using the Black Scholes valuation model.

Twenty record holders of ordinary shares have declared postal addresses in the United States. These twenty record holders hold, between them, 92% of our outstanding share capital. There are no arrangements known to us that may at a subsequent date result in a change in control of us.

**FINANCIAL INFORMATION****Consolidated statements and other financial information****Consolidated Financial Statements**

See the Company's financial statements incorporated by reference to the Company's annual report on Form 20-F for the year ended December 31, 2003, and additional financial information incorporated herein by reference to the Company's report on Form 6-K, filed on August 24, 2004.

**Other Financial Information**

The amount of export revenues constitutes a significant portion of our total revenues. The following is a table giving details of our export revenues, as well as the breakdown of revenues between products and services.

**Export Revenues**

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Export Revenues	11,773,707	7,753,019	8,288,344
Total Revenues	11,959,249	7,799,093	8,319,002
Percentage of Total Revenues	98%	99%	99%

**Breakdown of Revenues**

Product Revenues	83%	82%	75%
Service Revenues	17%	18%	25%

**Legal Proceedings**

As of December 31, 2003, the company was named as a defendant in a case brought by a patent holder, Millennium LP in the district court for the Southern District of New York. In that case Millennium was asserting that certain image processing systems sold or offered for sale by the Company in the U.S. infringe certain U.S. patents held by Millennium. Subsequent to the reporting period, the Company has settled the matter for \$ 250,000, which will be paid as follows: \$ 100,000 at the time the settlement agreement was finalized and a monthly payment of \$ 6,250 for 24 months. According to the settlement agreement, the abovementioned payment was for the release for past and covenant for the future. The settlement gave the Company a full release and discharge under the patents for all the company's products sold by the company or its customers up to the date of the settlement agreement and from then on until the last patent expires.

**Dividend Policy**

To date, we have not paid any dividend on our ordinary shares. The payment of dividends in the future, if any, is within the discretion of the board of directors and will depend upon our earnings, our capital requirements and financial condition and other relevant factors. We do not anticipate declaring or paying any dividends in the foreseeable future.

**Significant Changes**

There has been no material change in our financial position since December 31, 2003, other than respect to the private placement for consideration of approximately \$8 million described below under the heading "Material Changes."

**THE OFFER AND THE LISTING****Stock price history**

The annual high and low market prices for the ordinary shares for the five most recent full financial years are set forth below:



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<u>Year Ending</u>		<u>Boston Stock Exchange</u>	<u>NASDAQ SmallCap Market</u>
<b>December 31, 2003</b>	<b>Hi</b>	3.140	3.140
	<b>Lo</b>	0.420	0.420
<b>December 31, 2002</b>	<b>Hi</b>	3.92	3.92
	<b>Lo</b>	0.42	0.42
<b>December 31, 2001</b>	<b>Hi</b>	4.04	4.90
	<b>Lo</b>	0.99	2.05
<b>December 31, 2000</b>	<b>Hi</b>	16.0	16.688
	<b>Lo</b>	1.875	2.375
<b>December 31, 1999</b>	<b>Hi</b>	9.75	10.313
	<b>Lo</b>	2.5	2.75

The high and low market prices for the ordinary shares for each financial quarter over the two most recent full financial years and any subsequent period are set forth below:

<u>Quarter Ending</u>		<u>* Boston Stock Exchange</u>	<u>NASDAQ SmallCap Market</u>
<b>September 30, 2004</b>	<b>Hi</b>	3.23	3.23
	<b>Lo</b>	2.54	2.54
<b>August 31, 2004</b>	<b>Hi</b>	2.89	2.89
	<b>Lo</b>	2.13	2.13
<b>May 31, 2004</b>	<b>Hi</b>	3.70	3.70
	<b>Lo</b>	3.54	3.54
<b>March 31, 2004</b>	<b>Hi</b>	4.44	4.44
	<b>Lo</b>	2.36	2.36
<b>December 31, 2003</b>	<b>Hi</b>	3.14	3.14
	<b>Lo</b>	1.90	1.90
<b>September 30, 2003</b>	<b>Hi</b>	2.20	2.20
	<b>Lo</b>	1.15	1.15
<b>June 30, 2003</b>	<b>Hi</b>	1.49	1.49
	<b>Lo</b>	0.61	0.61
<b>March 31, 2003</b>	<b>Hi</b>	0.77	0.77
	<b>Lo</b>	0.42	0.42
<b>December 31, 2002</b>	<b>Hi</b>	0.99	0.99
	<b>Lo</b>	0.42	0.42
<b>September 30, 2002</b>	<b>Hi</b>	2.63	2.63
	<b>Lo</b>	0.95	0.95
<b>June 30, 2002</b>	<b>Hi</b>	3.20	3.20
	<b>Lo</b>	2.20	2.20

<b>March 31, 2002</b>	<b>Hi</b>	3.92	4.05
	<b>Lo</b>	2.61	2.31

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For the most recent six months, the high and low market prices of the ordinary shares for each month are set forth below:

<u>Month Ending</u>		<u>* Boston Stock Exchange</u>	<u>NASDAQ SmallCap Market</u>
<b>September 30, 2004</b>	<b>Hi</b>	3.23	3.23
	<b>Lo</b>	2.54	2.54
<b>August, 2004</b>	<b>Hi</b>	2.89	2.89
	<b>Lo</b>	2.13	2.13
<b>July 31, 2004</b>	<b>Hi</b>	2.71	2.71
	<b>Lo</b>	3.51	3.51
<b>June 30, 2004</b>	<b>Hi</b>	3.8	3.8
	<b>Lo</b>	3.3	3.3
<b>May 30, 2004</b>	<b>Hi</b>	4.34	4.34
	<b>Lo</b>	3.27	3.27
<b>April 31, 2003</b>	<b>Hi</b>	5.00	5.00
	<b>Lo</b>	3.53	3.53

\* See the section entitled "Markets" below. While still listed on the Boston Stock Exchange, there has been no trading activity in the ordinary shares on that exchange since November 1999.

#### Plan of Distribution

The selling shareholders may, from time to time, sell any or all of their ordinary shares on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at market or negotiated prices. The selling shareholders may use any one or more of the following methods when selling shares:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

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purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales permitted under the Securities Act;

broker-dealers may agree with the selling shareholders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

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any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The selling shareholders may also engage in short sales against the box, puts and calls and other transactions in our securities or derivatives of our securities to the extent permitted under the Securities Act, and may sell or deliver shares in connection with these trades.

Broker-dealers engaged by the selling shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling shareholders have advised us that they do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. Any profits on the resale of ordinary shares by a broker-dealer acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, attributable to the sale of shares will be borne by a selling stockholder. The selling shareholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares if liabilities are imposed on that person under the Securities Act.

The selling shareholders may from time to time pledge or grant a security interest in some or all of the ordinary shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the ordinary shares from time to time under this prospectus as selling shareholders and, if required, we will file a supplement to this prospectus under Rule 424(b) or other applicable provision of the Securities Act to include the pledgee or grantee as selling shareholders under this prospectus.

The selling shareholders also may transfer the ordinary shares in other circumstances not involving a sale, in which case the transferees, donees, or other successors in interest will be the selling beneficial owners for purposes of this prospectus and may sell the ordinary shares from time to time under this prospectus as selling shareholders, and, if required, we will file a supplement to this prospectus under Rule 424(b) or other applicable provision of the Securities Act to include, transferee, donee, or other successors in interest as selling shareholders under this prospectus.

The selling shareholders and any broker-dealers or agents that are involved in selling the ordinary shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the ordinary shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We are required to pay all fees and expenses incident to the registration of the ordinary shares. We have agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

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The selling shareholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their ordinary shares, nor is there an underwriter or coordinating broker acting in connection with a proposed sale of ordinary shares by any selling stockholder. If we are notified by any selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of ordinary shares, if required, we will file a supplement to this prospectus. If the selling shareholders use this prospectus for any sale of the ordinary shares, they will be subject to the prospectus delivery requirements of the Securities Act.

We have informed the selling shareholders that the anti-manipulation rules of Regulation M under the Securities Exchange Act of 1934 may apply to sales of our ordinary shares and activities of the selling shareholders.

### **Markets**

Effective November 1996, the ordinary shares were quoted on the NASDAQ SmallCap Market, under the symbol TISAF and listed on the Boston Stock Exchange, under the symbol TPM. Effective April 29, 1999, the symbol for the ordinary shares was changed to TISA on the NASDAQ SmallCap Market. While still listed on the Boston Stock Exchange, there has been no trading activity in the ordinary shares on that exchange since November 1999. The ordinary shares are not publicly traded outside the United States.

### **Selling Shareholders**

This prospectus covers:

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2,524,351 ordinary shares we issued to certain of the selling shareholders in a private placement transaction on September 24, 2004;

1,262,188 ordinary shares issuable upon the exercise of warrants we issued to such selling shareholders on September 24, 2004;

2,000,000 shares issued to Charter TiS L.L.C. on May 8, 2000; and

339,174 shares issued to Izhak Nakar and an entity controlled by him as founding shares.

Under the terms of the September 24, 2004 private placement transaction, we agreed that we would file a registration statement covering the resale of the ordinary shares issued thereby to the selling shareholders and the resale by the selling shareholders of our ordinary shares issuable upon exercise of the warrants. On May 8, 2000 we entered a registration rights agreement in connection with our sale of ordinary shares to Charter TiS L.L.C. pursuant to which we agreed to register the shares purchased by Charter and held by Mr. Nakar.

The following table sets forth information about the beneficial ownership of each selling stockholder as to:

the number of ordinary shares that are beneficially held by the selling stockholder; and

the maximum number of shares that may be offered by each selling stockholder in the prospectus.

We cannot estimate the number of ordinary shares that will be beneficially owned by the selling shareholders after completion of this offering because the selling shareholders may sell all, some or none of the ordinary shares beneficially owned by them prior to this offering and may subsequently acquire beneficial ownership of other shares. Our registration of these securities does not necessarily mean that the selling shareholders will sell any or all of the securities.

The information provided in the table below and the footnotes thereto with respect to each selling stockholder has been provided by that selling shareholder. For the selling shareholders that are entities, we have identified in the footnotes to the table the individuals who have or share voting and/or investment control over such selling shareholders. The number of shares held by certain selling shareholders includes shares issuable upon exercise of certain warrants held by the selling shareholders. We believe that the selling shareholders have sole voting and investment powers over their ordinary shares except as indicated below.

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NAME OF SELLING SHAREHOLDER	SHARES BENEFICIALLY OWNED PRIOR TO THE OFFERING	PERCENTAGE OF OUTSTANDING ORDINARY SHARES*	NUMBER OF SHARES OFFERED HEREBY
<b>Amiram Levinberg</b> 5 Noach Moses, Ramat Gan, Israel	23,725 (1)	0.2%	23,725 (1)
<b>Joshua Levinberg</b> 28 Jonathan St., Zahala, Tel Aviv, Israel	35,591 (2)	0.3%	35,591(2)
<b>Ram Ben Shalom/Chani Rona</b> 43 Merkaz Ba alei Melacha, Tel Aviv,Israel	47,449 (3)	0.4%	47,449 (3)
<b>Clear Mountain Holdings Inc</b> C/O 55-1450 Paitilla, Banco General Building, 21st Floor, Aquilino de la Guardia St., Panama, Republic of Panama	47,461 (4)	0.45%	47,461 (4)
<b>Jacob Rogovin</b> 5 Smilanski st., Tel Aviv 62154, Israel	23,725 (5)	0.2%	23,725 (5)
<b>Israel Brokerage &amp; Investments</b> 9 Ahad Ha am, Shalom Tower26 floor, P.O.Box 29161, Tel Aviv 61291, Israel	15,000 (6)	0.1%	15,000 (6)

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<b>Gachelet Ltd.</b> 9 Ahad Ha am, Shalom Tower, 26 floor, P.O.Box 29161, Tel Aviv 61291, Israel	22,500 (7)	0.2%	22,500 (7)
<b>D. Tomay Ltd.</b> Suslik 3, Tel Aviv, Israel	30,000 (8)	0.3%	30,000 (8)
<b>E.Z.D. Ltd.</b> 9 Ahad Ha am, Shalom Tower, 26 floor, P.O.Box 29161, Tel Aviv 61291, Israel	22,500 (9)	0.2%	22,500 (9)
<b>Tate Capital Partners Fund, LLC</b> 3600 Minnesota Drive, Suite 525, Minneapolis, MN 55435	189,874 (10)	1.7%	189,874 (10)
<b>Iroquois Capital LP</b> 641 Lexington Ave., 26th floor, NY, NY 10022	712,025 (11)	6.3%	712,025 (11)
<b>Omicron Master Trust</b> 810 Seventh Ave, 39th Floor, New York, NY 10019	237,340 (12)	2.1%	237,340 (12)
<b>Pandora Select Partners LP</b> 3033 Excelsior Blvd., Suite 300, Minneapolis, MN 55416	949,367 (13)	8.5%	949,367 (13)
<b>WPG Select Technology Fund LP</b> 590 Madison Ave., 27th Floor, NY, NY 10022	101,568 (14)	0.9%	101,568 (14)

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<b>WPG Select Technology Overseas</b> 590 Madison Ave., 27th Floor, NY, NY 10022	436,020 (15)	3.9%	436,020 (15)
<b>WPG Select Technology QP</b> 590 Madison Ave., 27th Floor, NY, NY 10022	411,780 (16)	3.7%	411,780 (16)
<b>Smithfield Fiduciary LLC</b> c/o Highbridge Capital Management LLC, 9 West 57th Street, 27th floor, New York, NY 10019	237,341 (17)	2.1%	237,341 (17)
<b>Jacob Kestenbom</b> 14 Ne eman Boulevard, Tel Aviv, Israel	16,613 (18)	0.1%	16,613 (18)
<b>Omega Trading S.A.</b> Dzerbenes STR 14C, Riga LV-1006, Latvia	66,455 (19)	0.6%	66,455 (19)
<b>Gerera Moshe</b> 4 Rimalt St., Ramat Gan, Israel	11,867 (20)	0.1%	11,867 (20)

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<b>Berkovitch Moti</b> 216 Jaffa St., Jerusalem, Israel	56,961 (21)	0.5%	56,961 (21)
<b>Appletec Ltd.</b> 2 Granit st., Mitzpeh Sapir Industrial Ceter, Zur Yigal, Israel	23,734 (22)	0.2%	23,734 (22)
<b>Zeto Investment</b> c/o Oded Ungar, Adv., 5 Tarphon St., Bnei Brak, 51420, Israel	56,962 (23)	0.5%	56,962 (23)
<b>Roni Aldor</b> 8 Chilul St., Tel Aviv 69547, Israel	10,681 (24)	0.1%	10,681 (24)
<b>Charter TiS L.L.C.</b> 2711 Centerville Road Wilmington, DE 19808	2,000,000 (25)	17.8%	2,000,000 (25)
<b>Izhak Nakar</b> Romanili 4, Shikun Dan, Tel Aviv, Israel	364,174 (26)(27)	3.2%	339,174 (27)
Total:			6,125,713

\*The following applies to the warrants referenced in the footnotes (with the exception of those referenced in footnote 26): The warrants are exercisable within 60 days at an exercise price of \$4.26 per share. However, the warrants contain a provision preventing a holder from exercising a warrant where the exercise would result in such holder beneficially owning more than 4.999% of our outstanding ordinary shares. Accordingly, no selling shareholder could be rendered a beneficial holder of more than 4.999% of our ordinary shares solely because of shares issuable to such shareholder upon exercise of such warrants held by the holder.

(1) Consisting of 15,816 shares issued in a private placement on September 24, 2004 and 7,909 shares issuable upon exercise of warrants issued in connection therewith.

(2) Consisting of 23,727 shares issued in a private placement on September 24, 2004 and 11,864 shares issuable upon exercise of warrants issued in connection therewith.

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(3) Consisting of 31,632 shares issued in a private placement on September 24, 2004 and 15,817 shares issuable upon exercise of warrants issued in connection therewith.

(4) Consisting of 31,640 shares issued in a private placement on September 24, 2004 and 15,821 shares issuable upon exercise of warrants issued in connection therewith.

(5) Consisting of 15,816 shares issued in a private placement on September 24, 2004 and 7,909 shares issuable upon exercise of warrants issued in connection therewith.

(6) Consisting of 10,000 shares issued in a private placement on September 24, 2004 and 5,000 shares issuable upon exercise of warrants issued in connection therewith.

(7) Consisting of 15,000 shares issued in a private placement on September 24, 2004 and 7,500 shares issuable upon exercise of warrants issued in connection therewith.

(8) Consisting of 20,000 shares issued in a private placement on September 24, 2004 and 10,000 shares issuable upon exercise of warrants issued in connection therewith.

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(9) Consisting of 15,000 shares issued in a private placement on September 24, 2004 and 7,500 shares issuable upon exercise of warrants issued in connection therewith.

(10) Consisting of 126,582 shares issued in a private placement on September 24, 2004 and 63,292 shares issuable upon exercise of warrants issued in connection therewith. The managing member of Tate Capital Partners Fund, LLC is Tate Capital Partners, LLC. The managing member of Tate Capital Partners, LLC is Tate Capital Management LLC. The managing member of Tate Capital Management, LLC is Kurtis J. Winters. As managing member of Tate Capital Management, LLC, Mr. Winters may be deemed to have voting and dispositive powers with respect to the securities to be offered. Mr. Winters disclaims beneficial ownership of such securities, except to the extent of his pecuniary interest therein.

(11) Consisting of 474,683 shares issued in a private placement on September 24, 2004 and 237,342 shares issuable upon exercise of warrants issued in connection therewith. Joshua Silverman has voting control and investment discretion over the ordinary shares held by Iroquois Capital LP. Mr. Silverman disclaims beneficial ownership of the securities held by Iroquois Capital LP. Because of the limitation on exercise of the warrants, Iroquois may not exercise its warrants until such point in time that after the exercise, Iroquois would not beneficially own more than 4.999% of our ordinary shares.

(12) Consisting of 158,226 shares issued in a private placement on September 24, 2004 and 79,114 shares issuable upon exercise of warrants issued in connection therewith. Omicron Capital, L.P., a Delaware limited partnership ( Omicron Capital ), serves as investment manager to Omicron Master Trust, a trust formed under the laws of Bermuda ( Omicron ), Omicron Capital, Inc., a Delaware corporation ( OCI ), serves as general partner of Omicron Capital, and Winchester Global Trust Company Limited ( Winchester ) serves as the trustee of Omicron. By reason of such relationships, Omicron Capital and OCI may be deemed to share dispositive power over our ordinary shares owned by Omicron, and Winchester may be deemed to share voting and dispositive power over our ordinary shares owned by Omicron. Omicron Capital, OCI and Winchester disclaim beneficial ownership of such ordinary shares. Omicron Capital has delegated authority from the board of directors of Winchester regarding the portfolio management decisions with respect to the ordinary shares owned by Omicron and, as of the date hereof, Mr. Olivier H. Morali and Mr. Bruce T. Bernstein, officers of OCI, have delegated authority from the board of directors of OCI regarding the portfolio management decisions of Omicron Capital with respect to our ordinary shares owned by Omicron. By reason of such delegated authority, Messrs. Morali and Bernstein may be deemed to share dispositive power over our ordinary shares owned by Omicron. Messrs. Morali and Bernstein disclaim beneficial ownership of such ordinary shares and neither of such persons has any legal right to maintain such delegated authority. No other person has sole or shared voting or dispositive power with respect to our ordinary shares being offered by Omicron, as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. Omicron and Winchester are not affiliates of one another, as that term is used for purposes of the Securities Exchange Act of 1934, as amended, or of any other person named in this prospectus as a selling stockholder. No person or group (as that term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended, or the SEC's Regulation 13D-G) controls Omicron and Winchester.

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(13) Consisting of 632,911 shares issued in a private placement on September 24, 2004 and 316,456 shares issuable upon exercise of warrants issued in connection therewith. Pandora Partners LP is a beneficial owner of Pandora Select Partners LP. The general partner and investment manager of Pandora Select Partners, LP is Pandora Select Advisors, LLC. The managing member of Pandora Select Advisors, LLP is AJR Financial, LLC. The managing member of AJR Financial, LLC is Andrew J. Redleaf. As managing member of AJR Financial, LLC, Mr. Redleaf may be deemed to have voting and dispositive powers with respect to the securities to be offered. Mr. Redleaf disclaims beneficial ownership of such securities, except to the extent of his pecuniary interest therein. Because of the limitation on exercise of the warrants, Pandora may not exercise its warrants until such point in time that after the exercise, Pandora would not beneficially own more than 4.999% of our ordinary shares.

(14) Consisting of 67,712 shares issued in a private placement on September 24, 2004 and 33,856 shares issuable upon exercise of warrants issued in connection therewith. Ben Taylor and George Boyd have voting and investment control over the securities held by WPG Select Technology Fund, L.P., WPG Select Technology Overseas Fund, Ltd. and WPG Select Technology QP Fund, L.P.

(15) Consisting of 290,680 shares issued in a private placement on September 24, 2004 and 145,340 shares issuable upon exercise of warrants issued in connection therewith. Ben Taylor and George Boyd have voting and investment control over the securities held by WPG Select Technology Fund, L.P., WPG Select Technology Overseas Fund, Ltd. and WPG Select Technology QP Fund, L.P.

(16) Consisting of 274,520 shares issued in a private placement on September 24, 2004 and 137,260 shares issuable upon exercise of warrants issued in connection therewith. Ben Taylor and George Boyd have voting and investment control over the securities held by WPG Select Technology Fund, L.P., WPG Select Technology Overseas Fund, Ltd. and WPG Select Technology QP Fund, L.P.

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(17) Consisting of 158,227 shares issued in a private placement on September 24, 2004 and 79,114 shares issuable upon exercise of warrants issued in connection therewith. Highbridge Capital Management, LLC is the trading manager of Smithfield Fiduciary LLC and has voting control and investment discretion over securities held by Smithfield Fiduciary LLC. Each of Highbridge Capital Management, LLC, Glen Dublin, and Henry Swieca disclaims beneficial ownership of the securities held by Smithfield Fiduciary LLC.

(18) Consisting of 11,075 shares issued in a private placement on September 24, 2004 and 5,538 shares issuable upon exercise of warrants issued in connection therewith.

(19) Consisting of 44,303 shares issued in a private placement on September 24, 2004 and 22,152 shares issuable upon exercise of warrants issued in connection therewith. Avi Shaked is the beneficial owner of Omega.

(20) Consisting of 7,911 shares issued in a private placement on September 24, 2004 and 3,956 shares issuable upon exercise of warrants issued in connection therewith.

(21) Consisting of 37,974 shares issued in a private placement on September 24, 2004 and 18,987 shares issuable upon exercise of warrants issued in connection therewith.

(22) Consisting of 15,822 shares issued in a private placement on September 24, 2004 and 7,912 shares issuable upon exercise of warrants issued in connection therewith. Appletec is beneficially owned 99% by Aaron Applebaum and 1% by Dina Applebaum.

(23) Consisting of 37,974 shares issued in a private placement on September 24, 2004 and 18,988 shares issuable upon exercise of warrants issued in connection therewith.

(24) Consisting of 7,120 shares issued in a private placement on September 24, 2004 and 3,561 shares issuable upon exercise of warrants issued in connection therewith.

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(25) Consisting of shares acquired in a private placement on May 8, 2000. William M. Landuyt and Phyllis Haberman, officers of the Charterhouse, are also directors of the Company. Mr. Landuyt and Ms. Haberman disclaim beneficial ownership of the shares owned by Charter Tis L.L.C.

(26) Includes 25,000 shares issuable upon exercise of options held by Mr. Nakar.

(27) Consisting of 59,174 shares held in Mr. Nakar's name and 280,000 shares held by Nir 4 You Technologies Ltd., an Israeli company beneficially owned by Mr. Nakar and members of his immediate family. Mr. Nakar founded the Company and served as its Chief Executive Officer from inception until December 2001. He has been a director of the Company since 1991.

### Dilution

There is no dilution in share value to either the Company or its purchasers from the selling shareholders who will be receiving shares through this Distribution, since no new shares are being issued by the Company. Exercise of the warrants issued in connection with our private placement which closed on September 24, 2004 could result in ownership dilution to our shareholders who do not exercise warrants because newly issued ordinary shares would be received by exercising warrant holders.

### Expenses of the Issue

The following statement sets forth the estimated expenses in connection with the offering described in the registration statement (all of which will be borne by us).

Securities and Exchange Commission Fee	\$	2,379
Accountants' Fees and Expenses*	\$	10,000
Legal Fees and Expenses*	\$	12,000
TOTAL*	\$	24,379

\*Estimated.

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**ADDITIONAL INFORMATION**

**Memorandum and Articles of Association**

**General**

TiS is registered with the Israeli Registrar of Companies. The registration number issued to TiS by the Registrar of Companies is 52-004294-6. The objectives for which we were founded are set out in Section 2 of the Memorandum of Association as follows: The Company is permitted to deal with any activity that is meant to advance the interests of the Company and to act in any field which the Company's management believes is beneficial to the Company.

**Directors and other Office Holders**

***General***

A director's ability to vote on a proposal, arrangement or contract in which the director is materially interested is codified, along with the fiduciary duties of all office holders, in the Israeli Companies Law. Under the Israeli Companies Law, the term office holders, is defined to mean, a director, chief executive officer, president, chief business manager, deputy chief executive officer, vice chief executive officer, executive vice president, vice president, another manager directly subordinate to the managing director or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care includes avoiding negligent acts and acting skillfully as a reasonable office holder would act. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder of the company.

The Israeli Companies Law requires that an office holder promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company.

In the case of a transaction in which an office holder has a personal interest, that is not an extraordinary transaction, as defined under Israeli law, and after the office holder complies with the above disclosure requirement, only board approval is required unless the Articles of Association of the company provide otherwise. Members of the board having a personal interest should not be present at the vote or exercise their vote unless a majority of the board has a personal interest. The transaction must not be adverse to the company's interest. If such transaction is an extraordinary transaction or if the company intends to provide an undertaking to indemnify, exempt or insure an office holder, with regard to their duties, then, in addition to any approval required by the board of directors or by the Articles of Association, it also must be approved by the audit committee prior to the approval by the board of directors, and, under specified circumstances, by a meeting of the shareholders. An office holder who has a personal interest in the approval of a transaction brought before the board of directors or the audit committee may not be present at this meeting or vote on this matter unless most of the members have a personal interest in approving the transaction or the occurrence of specific circumstances defined in the law.

With the exception of Fixed Amounts compensation to external directors, arrangements regarding the compensation of directors of a public company (whether regarding in their capacity as directors or regarding the provision of other services) require audit committee, board of directors and shareholder approval.

***External Directors***

Under the Israeli Companies Law which took effect on February 1, 2000, companies registered under the laws of Israel whose shares have been offered to the public in or outside of Israel are required to appoint two external directors. Any committee having the power to act on behalf of a company's board (as opposed to an advisory committee) must have at least one external director as a member. All of the external directors must be members of the Audit Committee. An external director must be an individual resident of Israel, who is qualified to serve as a director. However, companies such as ours whose shares have been offered to the public outside of Israel may appoint external directors who are not residents of Israel according to special allowances provided in relevant regulations. No person may be appointed as an external director if the person or the person's relative, partner, employer or any entity under the person's control, has or had, on or within the two years preceding the

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date of the person's appointment to serve as external director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

No person may serve as an external director if the person's position or other business creates, or may create, a conflict of interest with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director. A director of one company may not be appointed as an external director in another, if at the same time, a director of the other company serves as an external director of the first. Other limitations exist with regard to various types of memberships and positions, whose holders may not serve as external directors. If, at the time external directors are to be appointed, all current members of the board of directors are of the same gender, then at least one external director must be of the other gender.

External directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

the majority of shares voted at the meeting, including at least one-third of the shares held by non-controlling shareholders voted at the meeting, vote in favor of election of the director; or

the total number of shares held by non-controlling shareholders voted against the election of the directors does not exceed one percent of the aggregate voting rights in the company.

The initial term of an external director under the current law is three years and may be extended for an additional term of three years. External directors may be removed only by the same percentage of shareholders as is required for their election, or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company.

Notwithstanding the foregoing, Israeli companies whose shares have only been offered to the public outside of Israel or that are registered solely on a stock market outside of Israel are entitled to some allowances in accordance with applicable regulations with respect to the requirements for an external director. (Regulations for allowances for public companies whose shares are registered for trade on a stock market external of Israel - 2000.)

An external director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly in connection with service provided as an external director or for any other service.

### *Alternate Directors*

Under the Israeli Companies Law, the Articles of Association of a company may entitle a director to appoint another person to serve as an alternate director. Our Articles entitle our directors by written notice to us to make such an appointment and to cancel any such appointment. Our Articles also provide that any person may act as an alternate director. The Israeli Companies Law now prohibits incumbent directors from acting as alternate directors and a single person acting as an alternate director for more than one incumbent director.

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The term of appointment of a substitute director may be for one meeting of the board of directors or for a specified period or until notice is given of the cancellation of the appointment. To our knowledge, no director currently intends to appoint any other person as a substitute director, except if the director is unable to attend a meeting of the board of directors.

### *Internal Auditor and Certified Public Accountant*

Under the Israeli Companies Law, the board of directors must appoint an internal auditor, nominated by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and orderly business procedure. Under the Israeli Companies Law, the internal auditor may be an employee of the company but not an office holder (as defined above), or an affiliate, or a relative of an office holder or affiliate, and he may not be the company's independent accountant or its representative. In addition, the internal auditor may not be a person who holds 5% or more of the company's outstanding share capital or voting rights, or a person who has the right to appoint one or more directors or the general manager. The Company's internal auditor is Mr. Eyal Weitzman of Fahn Kanne Control Management Ltd., a member firm of Grant Thornton International.

In addition, under the Israeli Companies Law, all companies must appoint a certified public accountant to audit the company's financial statements and to report to the chairman of the board of directors any material improprieties that it may discover with respect to the accounting control of the company. In our last shareholders meeting, on December 18, 2003 we appointed Kost, Forrer, Gabbay and Kasierer, a member firm of Ernst and Young and certified public accountants in Israel, as our certified public accountant for auditing services.

#### ***Indemnification of Directors and Officers***

The Israeli Companies Law provides that an Israeli company cannot exempt an officer from liability with respect to a breach of his fiduciary responsibilities. While the Companies Ordinance, in effect through 1999, provided that an Israeli company could not exempt an officer from liability with respect to a breach of his duty of care or his duty of loyalty, the Israeli Companies Law now permits such exemption if formulated in accordance with such law. The Israeli Companies Law also permits entitling an office holder to indemnification subject to certain conditions. At the shareholders' meeting on December 18, 2003, the Company adopted new Articles of Association which allow for insurance and indemnification for office holders for future liabilities. At the same meeting, the shareholders approved indemnification of the officers and directors of the Company, in the form described herein.

The procurement of director and officer liability insurance or the provision of any such indemnification, as the case may be, must be approved by our Audit Committee and otherwise as required by law. We may not indemnify an office holder or enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of the following: (i) a breach by the office holder of his duty of care if such breach was done intentionally or in disregard of the circumstances of the breach of its consequences; (ii) a breach by the office holder of his duty of loyalty unless he acted in good faith and had a reasonable basis to believe that his act or omission would not prejudice our interests; (iii) any act or omission done with the intent to derive an illegal personal benefit; or (iv) any fine levied against the office holder as a result of a criminal offense.

Currently, we hold an insurance policy for our office holders that provides coverage limited to \$10,000,000 in aggregate for the policy period, ending on December 31, 2004.

#### **Rights, Preferences, Restrictions of Shares**

We currently utilize one type of share, this being ordinary shares. Subject to Israeli law, dividends may be declared at a general meeting, following a recommendation by the directors. We may decide to declare a dividend in an amount that is less than that recommended by the directors or decide not to declare a dividend at all, despite a directors' recommendation, but may not increase the amount of the dividend to more than the amount recommended by the directors. The directors may invest or use otherwise for our benefit, any dividends that are not demanded within one year of their being declared. The directors shall pay such dividends upon receipt of a valid demand; however we are not liable to pay any interest on dividends.

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Each shareholder is entitled to one vote for each Ordinary Share held. Except for the external directors, each director is elected to serve until the next annual general meeting of shareholders and until his successor has been elected. Our Articles do not grant shareholders any rights to share in our profits other than through dividends. In the event that we go into liquidation, any surplus is distributed to the shareholders in proportion to the amount paid by each on account of the nominal value of the shares paid. No account is taken of any premiums paid in excess of the nominal value.

We may issue and redeem redeemable shares and redeemable warrants. There are no sinking fund provisions recorded in our Articles. The directors may only make calls upon shareholders in respect of sums unpaid on their shares. Our Articles contain no provisions which discriminate against any existing or future shareholder as a result of said shareholder holding a substantial number of shares.

If at any time our share capital is divided into different classes of shares, we may change the rights of shareholders following receipt in writing of the agreement of 75% of the affected shareholders or following the passing of a resolution at a general meeting which is supported by 75% of the affected shareholders. Any holder of shares the rights of which we propose to change may demand a secret ballot on this issue.

#### **Meetings of Shareholders**

An annual general meeting must be held once in each year and not later than fifteen months after the preceding annual general meeting. All shareholders are entitled to attend and vote or vote by proxy at annual general meetings. Notice of annual general meetings may be sent by us by personal delivery, post, facsimile or telex to shareholders at the address recorded in our records. Any notice sent by post to a shareholder's address that is situated outside of Israel must be sent by airmail. Any general meeting that is not an annual general meeting is called an extraordinary general meeting. All shareholders are entitled to attend and vote or vote by proxy at extraordinary general meetings.

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Our board of directors may convene an extraordinary general meeting when and as they see fit. In addition the Board must, according to statute, convene an extraordinary general meeting if it receives a demand to do so from either (i) at least two directors, (ii) at least one quarter of the directors of the Board or (iii) one or more shareholders who hold (A) an aggregate of at least five percent of our issued share capital and one percent of all voting rights, or (B) at least five percent of all voting rights. Any demand by a person or persons, as described in (i), (ii) and/or (iii) of this paragraph, who wish to demand that an extraordinary general meeting be convened must be made in writing and sent to our registered office. The demand must detail the objects of the meeting and must be signed by all those making the demand.

Notice of an annual general meeting and of an extraordinary general meeting must be sent at least 21 days in advance to all shareholders recorded in our register of shareholders. Such notice must include the place, date and hour of the meeting, the agenda for the meeting, the proposed resolutions and instructions for proxy voting.

Notwithstanding the foregoing, Israeli companies whose shares have only been offered to the public outside of Israel or that are registered solely on a stock market outside of Israel are entitled to some allowances in accordance with applicable regulations with respect to the requirements for notice of shareholder meetings if there is compliance with applicable rules of the country in which such shares have been offered or such a stock market is located.

### **Limitations of Shareholders**

No limitations exist or are imposed by Israeli law or our constituent documents with regard to the right to own our shares, including any limitations upon the rights of non-resident or foreign shareholders to hold or exercise voting rights.

### **Limitations on a Change of Control**

There are no provisions in our Articles or other constituent documents other than as required by law that would have an effect of delaying, deferring or preventing a change in control of us. The holders of the warrants to be issued in connection with the private placement which is described under the heading "Liquidity and Capital Resources", have certain rights upon certain types of transactions that could make consummating such a transaction more expensive.

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### **Provisions Relating to Major Shareholders**

We are required by law to maintain a separate register of shareholders that hold five percent, or over five percent, of either our issued shares or voting rights.

The Israeli Companies Law applies the same disclosure requirements to a controlling shareholder of a public company, which includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company, as it does to office holders in the context of a related party transaction. For the purposes of this definition, the law deems two or more shareholders who hold voting rights in the company and each of which has a personal interest in the approval of a transaction being brought to the company for approval, as jointly holding such shares. See the section entitled "Directors-General" in this prospectus. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and agreements relating to employment and compensation terms of a controlling shareholder, require the approval of the audit committee, the board of directors and the shareholders of the company.

The shareholder approval must either include at least one-third of the shares held by disinterested shareholders who are present, in person or by proxy, at the meeting, or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than one percent of the voting rights in the company. In addition, a private placement of securities that will increase the relative holdings of a shareholder that holds five percent or more of the company's outstanding share capital, assuming the exercise of all of the securities convertible into shares held by that person, or that will cause any person to become, as a result of the issuance, a holder of more than five percent of the company's outstanding share capital, requires approval by the board of directors and the shareholder of the company. A private placement in which our securities are traded only in a foreign market entitles us to certain allowances as to the approvals necessary for such placement.

Under the Israeli Companies Law, a shareholder has a duty to act in good faith towards the company and the other shareholders and to refrain from abusing his power in the company, including, among other things, voting in the general meeting of shareholders on the following matters:

any amendment to the Articles of Association;

an increase of the company's authorized share capital;  
a merger; or  
approval of interested party transactions that require shareholder approval.

In addition, any controlling shareholder who can determine the outcome of a shareholder vote and any shareholder who, under a company's Articles of Association, can appoint or prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Israeli Companies Law does not describe the substance of this duty.

## Contracts

Neither we nor any of our subsidiaries has entered into any material contracts, other than contracts entered into in the ordinary course of business, during the two years immediately preceding publication of this document excepting the agreements relating to the investment of Charter and the related arrangements with Mr. Nakar. See the sections entitled Major Shareholders and Related Party Transactions and Compensation in the section entitled Directors, Senior Management and Employees in this prospectus

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## Israeli Exchange Control Laws

The Government of Israel has promulgated a general permit under the Israeli Currency Control Law. Pursuant to such general permit, substantially all transactions in foreign currency are permitted. Any dividends or other distributions paid in respect of ordinary shares and any amounts payable upon our dissolution, liquidation or winding up of our affairs, as well as the proceeds of any sale in Israel of our securities to an Israeli resident are freely exchangeable into non-Israeli currencies at the appropriate rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on (or withheld from) such payments. Because exchange rates between the NIS and the U.S. dollar fluctuate continuously, U.S. shareholders will be subject to any such currency fluctuation during the period from when such dividend is declared through the date payment is made in U.S. dollars.

## Taxation

### Israeli Tax Considerations

The following is a summary of the current tax law applicable to companies in Israel, with special reference to its effect on us. The following also contains a discussion of specified Israeli Government programs benefiting us. To the extent that the discussion is based on tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the authorities in question.

The Law for Amendment of the Income Tax Ordinance (Amendment No. 132) came into effect on January 1, 2003. The reform significantly changed the taxation basis of corporate and individual taxpayers from a territorial basis to a worldwide basis. From such date an Israeli resident taxpayer will be taxed on income produced and derived both in and out of Israel.

The tax reform, aimed at broadening the categories of taxable income and reducing the tax rates imposed on employment income, introduced the following, among other things:

Reduction of the tax rate levied on capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003, to a general rate of 25% for both individuals and corporations. Regarding assets acquired prior to January 1, 2003, the reduced tax rate will apply to a proportionate part of the gain, in accordance with the holding periods of the asset, before or after January 1, 2003, on a linear basis;

Imposition of Israeli tax on all income of Israeli residents, individuals and corporations, regardless of the territorial source of income, including income derived from passive sources such as interest, dividends and royalties;

Introduction of controlled foreign corporation, or CFC, rules into the Israeli tax structure. Generally, under such rules, an Israeli resident who holds, directly or indirectly, 10% or more of the rights in a foreign corporation whose shares are not publicly traded, in which more than 50% of the rights are held directly or indirectly by Israeli residents, and a majority of whose income in a tax year is considered passive income, will be liable for tax on the portion of such income attributed to his holdings in such corporation, as if such income were distributed to him as a dividend;

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Imposition of capital gains tax on capital gains realized by individuals as of January 1, 2003, from the sale of shares of publicly traded companies (such gain was previously exempt from capital gains tax in Israel). For information with respect to the applicability of Israeli capital gains taxes on the sale of ordinary shares, see *Capital Gains Tax* below;

Introduction of a new regime for the taxation of shares and options issued to employees and officers (including directors).

The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

The Israeli statutory corporate tax rate on taxable business income until the fiscal year of 2003 was 36%. On June 29, 2004, the Israeli Parliament passed the Amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), which progressively reduces the tax rates applicable to companies from 35% in 2004 to a rate of 30% in 2007. Notwithstanding the foregoing, the effective tax rate payable by a company (such as us), which derives income from an *Approved Enterprise* may be considerably less. See the section entitled *Law for the Encouragement of Capital Investments, 1959* in this prospectus.

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As of December 31, 2003, we had net operating loss carryforwards of approximately \$15,362,351, available to utilize against our taxable business income in future tax years. A portion of such losses expires over a period from 2005 through 2017 and the rest remains available indefinitely.

### *Law for the Encouragement of Capital Investments, 1959*

#### *General*

The Law for the Encouragement of Capital Investments, 1959 (the *Investment Law*) provides that capital investments in certain production facilities (or other eligible assets) may, upon application to the Israel Investment Center, be designated as an *Approved Enterprise*. Each certificate of approval for an *Approved Enterprise* relates to a specific investment program in the *Approved Enterprise*, delineated both by the financial scope of the investment and by the physical characteristics of the facility or other asset.

#### *Tax Benefits*

Income derived from an *Approved Enterprise* is taxed at lower company tax rates than would otherwise be applicable. The period of reduced taxation commences in the first year in which the *Approved Enterprise* generates taxable income and continues for a maximum of seven consecutive years, but such period ends not later than the twelfth year from commencement of production or the fourteenth year from the date of approval of such enterprise, whichever is earlier. Since we have not yet generated taxable income, the period of benefits to which we are entitled as an *Approved Enterprise* has not yet begun.

We have elected to apply the so-called *Alternative Benefits Program* with respect to our income from *Approved Enterprises*. Under this program, the undistributed income derived from the *Approved Enterprise* is exempt from company tax with respect to business income for a defined period of time. The period of tax exemption ranges between 2 and 10 years, depending upon the location within Israel and the type of the *Approved Enterprise*. Because we are located in Tel Aviv, the period of tax exemption applicable is two years. On expiration of the exemption period, the *Approved Enterprise* would be eligible for beneficial tax rates otherwise available for *Approved Enterprises* under the *Investment Law* (for the company, a rate of 25%) for the remainder of the otherwise applicable benefits period.

In addition, a company that qualifies as a *Foreign Investors Company* is entitled to further reductions in the tax rate otherwise applicable to *Approved Enterprises*. Such benefits will be granted only to enterprises seeking approval not later than December 31, 2000. Subject to certain conditions, a *Foreign Investors Company* is a company, which has more than 25% of its share capital (in terms of rights to profits, voting and the appointment of directors) and of its combined share and loan capital owned by persons who are not residents of Israel. The benefits enjoyed by a *Foreign Investors Company* depend on the percentage of share capital owned by non-residents, which percentage is determined for any tax year by the lowest percentage of any of the above rights held by non-residents during that year. A *Foreign Investors Company* pays tax at reduced rates ranging from 25% to 10% over a ten-year period, commencing the year in which each such *Approved Enterprise* first generates taxable income (rather than the otherwise applicable seven-year period discussed above).

For a company with foreign investment of:

Company Tax Rate

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Over 25% but less than 49%	25%
49% or more but less than 74%	20%
74% or more but less than 90%	15%
90% or more	10%

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Dividends paid out of income derived by an Approved Enterprise are generally subject to withholding tax at the rate of 15% (compared to the standard rate of 25%), and the same rate will also be applicable to distributions made by a company out of dividends which it had received out of income derived by an Approved Enterprise. The rate of 15% is limited to those dividends and distributions paid out of income earned during the seven-year benefits period provided that such dividends and distributions are actually received by the shareholders at any time up to 12 years after the expiration of the seven-year period discussed above. A company such as us, which has elected to participate in the Alternative Benefits Program and pays a dividend from income derived by an Approved Enterprise during the tax exemption period under the Alternative Benefits Program, would be liable for company tax in respect of the gross amount distributed (i.e., the amount of the dividend grossed-up to include corporate and income tax payable or withheld with respect to the dividend) at the rate that would have been applicable had the Alternative Benefits Program not been elected (25%). The dividend recipient is taxed at the reduced rate applicable to dividends from Approved Enterprises (15% as compared to 25%), if the dividend is distributed during the tax exemption period or within a specified period thereafter. (In the event, however, that the company also qualifies as a Foreign Investors Company, there is no such time limit). This tax must be withheld by the company at source, regardless of whether the dividend is converted into foreign currency.

The tax benefits derived from a certificate of approval for an Approved Enterprise relate only to taxable income attributable to the Approved Enterprise and are conditioned upon fulfillment of the conditions stipulated by the Investment Law, the regulations promulgated thereunder and the criteria set forth in the certificate of approval. In the event of our failure to comply with these conditions, the tax benefits could be cancelled in whole or in part, and we would be required to refund the amount of the cancelled benefits with the addition of CPI linkage differences and interest. We believe that our Approved Enterprises operate in substantial compliance with all such conditions and criteria.

In the event that only a part of a company's taxable income is derived from an Approved Enterprise or the company operates under more than one approval, its effective corporate tax rate is equal to a weighted average of the various applicable rates. A company owning mixed enterprises (i.e., a company whose income is derived from both an Approved Enterprise and other sources) may not distribute a dividend attributable only to the Approved Enterprise alone. Subject to certain provisions concerning income subject to the Alternative Benefits Program, all dividends are considered to be attributable to the entire enterprise, and the effective tax rate is equal to a weighted combination of the various applicable tax rates. We anticipate that the Law for the Encouragement of Capital Investments will be subject to substantial revision during 2005.

### ***Law for the Encouragement of Industry (Taxes), 1969***

We currently qualify as an Industrial Company within the definition of the Law for the Encouragement of Industry (Taxes), 1969 and are, therefore, entitled to certain benefits, which are described below.

Under the Industry Encouragement Law, a company qualifies as an Industrial Company if it is resident in Israel and at least 90% of its income in any tax year, determined in NIS (exclusive of income from government compulsory defense loans, capital gains, interest, and dividends), is derived from Industrial Enterprises owned by that company. An Industrial Enterprise is defined as an enterprise whose major activity in a particular tax year is industrial production activity. Pursuant to the Industry Encouragement Law, an Industrial Company is entitled, under certain conditions, to a deduction of 12.5% of the purchase price of patents or certain other intangible property rights for each of the first eight years from the tax year in which it commenced use of such intangible property rights. To the extent that the income from a company's Approved Enterprises is exempt from taxation (see Law for the Encouragement of Capital Investments, 1959), the deduction that such company would have otherwise received under the Industry Encouragement Law will be reduced accordingly.

Eligibility for the benefits under the Industry Encouragement Law is not conditioned upon the receipt of prior approval from any Israeli Government authority. No assurance can be given that we will continue to qualify as an Industrial Company or will in the future be able to avail ourselves of any benefits under the Industry Encouragement Law.

### ***Taxation under Inflationary Conditions***

The Income Tax Law (Adjustment for Inflation), 1985 (the Adjustment for Inflation Law) represents an attempt to overcome some of the problems presented to a traditional tax system by an economy undergoing rapid inflation. Generally, the Adjustment for Inflation Law

provides significant tax deductions and adjustments to depreciation methods and tax loss carryforwards to compensate for loss of value resulting from a hyperinflationary economy. We are assessed under the Adjustment for Inflation Law.

The Income Tax Ordinance and the Adjustment for Inflation Law allow Foreign-Invested Companies which maintain their accounts in dollars in compliance with regulations published by the Israeli Minister of Finance to base their tax returns on the operating results as reflected in the dollar financial statements (in lieu of the principles set forth by the Adjustment for Inflation Law) or to adjust their tax returns based on exchange rate changes rather than changes in the CPI. For these purposes, a Foreign-Invested Company is a company more than 25% of whose share capital (in terms of rights to profits, voting and the appointment of directors) and of whose combined share and loan capital is owned by persons who are not residents of Israel.

#### ***Tax Benefits and Government Support for Research and Development***

Israel's tax law permits, under certain circumstances, a tax deduction for expenditures (including capital expenditures) in scientific research and development projects in the year incurred, if the expenditures are approved by the relevant Israeli Government Ministry (determined by the field of research) and the research and development is for the promotion of the enterprise and is carried out by or on behalf of the company seeking such deduction. Expenditures not so approved are deductible over a three-year period. We have taken such deductions in the past for research and development costs expended on projects so approved and expect to continue to have such deductions available to it in the future.

#### ***Capital Gains Tax***

Israel's law imposes a capital gains tax on the sale of capital assets, including securities held by us and our ordinary shares sold by holders thereof. The law distinguishes between Real Gain and Inflationary Surplus. Real Gain is the excess of the total capital gain over Inflationary Surplus, computed on the basis of the increase in the CPI between the date of purchase and the date of sale. Inflationary Surplus accumulated until December 31, 1993 is taxed at a rate of 10% for residents of Israel (reduced to no tax for non-residents if calculated according to the exchange rate of the dollar instead of the CPI), while Real Gain is added to ordinary income, which is taxed at the applicable ordinary rates for individuals (up to a 50% marginal rate) and 36% for corporations, while Inflationary Surplus accumulated from and after December 31, 1993 is exempt from any capital gains tax.

Israeli law generally imposes a capital gains tax on the sale of capital assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is equal to the increase in the purchase price of the relevant asset attributable solely to the increase in the Israeli consumer price index between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Prior to the tax reform, sales of our ordinary shares by individuals were generally exempt from Israeli capital gains tax so long as (i) our ordinary shares were listed on certain stock exchanges, including the NASDAQ SmallCap Market and the Boston Stock Exchange, or listed on a stock exchange in a country appearing on a list approved by the Controller of Foreign Currency and (ii) we qualified as an Industrial Company.

Pursuant to the tax reform, generally, capital gains tax is imposed at a rate of 15% on real gains derived on or after January 1, 2003, from the sale of shares in companies (i) publicly traded on the Tel Aviv Stock Exchange (TASE) or; (ii) (subject to a necessary determination by the Israeli Minister of Finance) Israeli companies publicly traded on a recognized stock exchange outside of Israel (such as the company). This tax rate does not apply to: (i) dealers in securities; (ii) shareholders that report in accordance with the Inflationary Adjustment Law; or (iii) shareholders who acquired their shares prior to an initial public offering (that are subject to a different tax arrangement). The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE, and shall be exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange outside of Israel, provided such shareholders did not acquire their shares prior to an initial public offering. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.



In any event, the provisions of the tax reform shall not affect the exemption from capital gains tax for gains accrued before January 1, 2003, as described above.

### ***Taxation of Non-Residents of Israel***

Individuals who are non-residents of Israel are subject to a graduated income tax on income derived from sources in Israel, unless such non-residents are subject to other rules under an applicable treaty and unless the capital gains were derived from sales of shares in an Industrial Company, as described above. Israeli source income is defined under Israeli law as income, including capital gains, derived or accrued in Israel and income derived or accrued outside of Israel, if such income is received in Israel. On the distribution of dividends other than bonus shares (stock dividends), income tax at the rate of 25% (15% in the case of dividends distributed from the taxable income attributable to an Approved Enterprise) is required to be withheld at source unless a different rate is provided for in a treaty between Israel and the shareholder's country of residence. The U.S.-Israel Tax Treaty provides for a maximum tax of 25% on dividends paid to a Treaty U.S. Resident.

### **United States Federal Income Tax Considerations**

Subject to the limitations described in the next paragraph, the following discussion describes the material United States federal income tax consequences to a holder of the company's ordinary shares, referred to for purposes of this discussion as a U.S. Holder, that is:

a citizen or resident of the United States;

a corporation (or entity treated as a corporation for U.S. tax purposes) created or organized in the United States or under the laws of the United States or of any state;

an estate, the income of which is includible in gross income for United States federal income tax purposes regardless of its source; or

a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

In addition, certain material aspects of United States federal income tax relevant to a holder other than a U.S. Holder, referred to as a Non-U.S. Holder, are discussed below.

This summary is for general information purposes only. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to each person's decision to purchase ordinary shares.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the Code), current and proposed Treasury regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This discussion does not address all aspects of United States federal income taxation that may be relevant to any particular shareholder based on such shareholder's individual circumstances. In particular, this discussion considers only U.S. Holders that will own ordinary shares as capital assets and does not address the potential application of the alternative minimum tax or United States federal income tax consequences to U.S. Holders that are subject to special treatment, including U.S. Holders that:

are broker-dealers or insurance companies;

have elected mark-to-marketing accounting;

are tax-exempt organizations;

are financial institutions or financial services entities ;

hold ordinary shares as part of a straddle, hedge or conversion transaction with other investments;

own directly, indirectly or by attribution at least 10% of our voting power; or

have a functional currency that is not the U.S. dollar.

In addition, this discussion does not address any aspect of state, local or non-United States tax laws.

Additionally, the discussion does not consider the tax treatment of persons who hold ordinary shares through a partnership or other pass-through entity or the possible application of United States federal gift or estate tax.

Each holder of ordinary shares is advised to consult such person's own tax advisor with respect to the specific tax consequences to such person of purchasing, holding or disposing of the company's ordinary shares.

#### ***Taxation of ordinary shares***

##### *Taxation of Dividends Paid On Ordinary Shares*

A U.S. Holder will be required to include in gross income as ordinary income the amount of any distribution paid on ordinary shares, including any Israeli taxes withheld from the amount paid, to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for United States federal income tax purposes. Distributions in excess of such earnings and profits will be applied against and will reduce the U.S. Holder's tax basis in the ordinary shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of ordinary shares.

U.S. Holders may have the option of claiming the amount of any Israeli income taxes withheld at source either as a deduction from gross income or as a dollar-for-dollar credit against their United States federal income tax liability. Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the Israeli income taxes withheld, but such amount may be claimed as a credit against the individual's United States federal income tax liability. The amount of foreign income taxes which may be claimed as a credit in any year is subject to complex limitations and restrictions, which must be determined on an individual basis by each shareholder. Distributions of current or accumulated earnings and profits will be foreign source passive income for United States foreign tax credit purposes and will not qualify for the dividends received deduction available to corporations. The total amount of allowable foreign tax credits in any year cannot exceed regular U.S. tax liability for the year attributable to foreign source taxable income. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the Ordinary Shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 30-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute.

##### *Taxation of the Disposition of Ordinary Shares*

Upon the sale, exchange or other disposition of ordinary shares, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder's basis in the ordinary shares, which is usually the cost of such shares, and the amount realized on the disposition. Capital gain from the sale, exchange or other disposition of ordinary shares held more than one year is long-term capital gain. Gains and losses recognized by a U.S. Holder on a sale, exchange or other disposition of ordinary shares will be treated as United States source income or loss for United States foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

##### *Tax Consequences if the Company is a Passive Foreign Investment Company*

The Company will be a passive foreign investment company, or PFIC, if 75% or more of its gross income in a taxable year, including the pro rata share of the gross income of any company, U.S. or foreign, in which it is considered to own 25% or more of the shares by value, is passive income. Alternatively, the company will be considered to be a PFIC if at least 50% of its assets in a taxable year, averaged over the year and ordinarily determined based on fair market value and including the pro rata share of the assets of any company in which it is considered to own 25% or more of the shares by value, are held for the production of, or produce, passive income. Passive income includes amounts derived by reason of the temporary investment of funds raised in the company's public offerings. If the company were a PFIC, and a U.S. Holder did not make an election to treat the company as a qualified electing fund (as described below):

Excess distributions by us to a U.S. Holder would be taxed in a special way. Excess distributions are amounts received by a U.S. Holder with respect to the company's stock in any taxable year that exceed 125% of the average distributions received by such

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U.S. Holder from us in the shorter of either the three previous years or such U.S. Holder's holding period for ordinary shares before the present taxable year. Excess distributions must be allocated ratably to each day that a U.S. Holder has held the company's stock. A U.S. Holder must include amounts allocated to the current taxable year in its gross income as ordinary income for that year. A U.S. Holder must pay tax on amounts allocated to each prior taxable year at the highest rate in effect for that year on ordinary income and the tax is subject to an interest charge at the rate applicable to deficiencies for income tax.

The entire amount of gain that was realized by a U.S. Holder upon the sale or other disposition of ordinary shares will also be rated as an excess distribution and will be subject to tax as described above.

A U.S. Holder's tax basis in shares of the company's stock that were acquired from a decedent would not receive a step-up to fair market value as of the date of the decedent's death but would instead be equal to the decedent's basis, if lower.

The special PFIC rules described above will not apply to a U.S. Holder if the U.S. Holder makes an election to treat the company as a qualified electing fund ( QEF ) in the first taxable year in which the U.S. Holder owns ordinary shares and if the company complies with certain reporting requirements. Instead, a shareholder of a qualified electing fund is required for each taxable year to include in income a pro rata share of the ordinary earnings of the qualified electing fund as ordinary income and a pro rata share of the net capital gain of the qualified electing fund as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. The Company has agreed to supply U.S. Holders with the information needed to report income and gain pursuant to a QEF election in the event the company is classified as PFIC. The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the Internal Revenue Service, or IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621, including the PFIC annual information statement, to a timely filed United States federal income tax return and by filing such form with the IRS Service Center in Philadelphia, Pennsylvania. Even if a QEF election is not made, a shareholder in a PFIC who is a U.S. person must file a completed IRS Form 8621 every year.

A U.S. Holder of PFIC stock which is publicly traded could elect to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the holder's fair market value of the PFIC stock and the adjusted basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. If the mark-to-market election were made, then the rules set forth above would not apply for periods covered by the election.

The Company believes that it was not a PFIC in 2003. However, the tests for determining PFIC status are applied annually, and it is difficult to make accurate predictions of future income and assets which are relevant to this determination. Accordingly, we cannot assure you that the Company will not become a PFIC. If the company determines that it has become a PFIC, it will notify its U.S. Holders and provide them with the information necessary to comply with the QEF rules. U.S. Holders who hold ordinary shares during a period when the Company is a PFIC will be subject to the foregoing rules, even if the Company ceases to be a PFIC, subject to certain exceptions for U.S. Holders who made a QEF election. U.S. Holders are urged to consult their tax advisors about the PFIC rules, including the consequences to them of making a mark-to-market or QEF election with respect to the Company's ordinary shares in the event that the Company qualifies as a PFIC.

### *Tax Consequences for Non-U.S. Holders of Ordinary Shares*

Except as described in the section entitled "Information Reporting and Back-up Withholding", a Non-U.S. Holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless:

such item is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States and, in the case of a resident of a country which has a treaty with the United States, such item is attributable to a permanent establishment or, in the case of an individual, a fixed place of business, in the United States;

the Non-U.S. Holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and does not qualify for an exemption; or

the Non-U.S. Holder is subject to tax pursuant to the provisions of United States tax law applicable to U.S. expatriates.

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### *Information Reporting and Back-up Withholding*

U.S. Holders generally are subject to information reporting requirements with respect to dividends paid in the United States on ordinary shares. U.S. Holders are also generally subject to back-up withholding on dividends paid in the United States on ordinary shares unless

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the U.S. Holder provides IRS Form W-9 or otherwise establishes an exemption. U.S. Holders are subject to information reporting and back-up withholding at a rate of 31% on proceeds paid from the disposition of ordinary shares unless the U.S. Holder provides IRS Form W-9 or otherwise establishes an exemption.

Non-U.S. Holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on, or upon the disposition of, ordinary shares, provided that such non-U.S. certifies to its foreign status, or otherwise establishes an exemption.

The amount of any back-up withholding will be allowed as a credit against a U.S. or Non-U.S. Holder's United States federal income tax liability and may entitle such holder to a refund, provided that certain required information is furnished to the IRS.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk represents the risk of changes in the value of our financial instruments caused by fluctuations in interest rates, foreign exchange rates and equity prices. Because our short-term investments exceed short-term and long-term debt, our exposure to interest rate risk and exchange rate fluctuations, relates primarily to our investments.

Our policy is to conservatively manage our excess currency. All transactions are approved by Management.

The Company does not utilize financial instruments for trading purposes and holds no derivative financial instruments that could expose it to significant market risk.

Based upon historical US dollar currency movement, the Company does not believe that reasonably possible near-term changes in the US dollar currency of 10% will result in a material effect on future earnings, financial position or cash flows of the company.

### **DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

### **MATERIAL CHANGES**

#### **Recent \$8 Million Private Placement**

On September 24, 2004, we sold 2,524,351 ordinary shares of the Company at a purchase price of \$3.16 per share to institutional investors for gross proceeds to the Company of approximately \$8 million.

Pursuant to our agreements with the investors, we are obligated to use the net proceeds from the sale of our ordinary shares for working capital purposes and not (i) for the satisfaction of any portion of our debt (other than payment of trade payables and accrued expenses in the ordinary course of our business and consistent with prior practices), (ii) to redeem any equity or equity-equivalent securities in the Company, or (iii) to settle any outstanding litigation. Accordingly, upon exercise of the warrants, we intend to use the proceeds in accordance with the foregoing provision.

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The investors also received warrants to purchase up to an additional 1,262,188 ordinary shares, with an exercise price of \$4.26 per share. The warrants expire on September 23, 2007. If the registration statement of which this prospectus is a part does not become effective by March 24, 2005, the investors may effect a cashless (net issuance) exercise of the warrants. The investors may only transfer the warrants to the investor's affiliates, qualified institutional buyers, or in the event of our dissolution or winding down. The warrants contain a provision preventing a holder from exercising a warrant where the exercise would result in such holder beneficially owning more than 4.999% of our outstanding ordinary shares. Accordingly, no selling shareholder could be rendered a beneficial holder of more than 4.999% of our ordinary shares solely because of shares issuable to such shareholder upon exercise of such warrants held by the holder.

We have the right, but not the obligation, to call upon prior notice all or part of the warrants if the market price for our ordinary shares is equal to \$8.52 for 20 consecutive days. Our calling the warrants would require the holders of the warrants to timely exercise the warrants. Failure to so exercise would result in our cancellation of the warrants. If we call any warrants, we must issue to each holder exercising in response to our call notice replacement warrants to purchase a number of shares equal to the number of shares acquired upon such exercise, with an exercise price equal to 120% of the closing price on the day prior to the call notice we provide to the holders.

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In connection with the transaction, the investors covenanted that they would refrain from engaging in short sales until the earlier of December 22, 2004 and the date on which the registration statement of which this prospectus is a part becomes effective.

Our shareholders approved the transaction at a special shareholders meeting held on August 24, 2004.

Pursuant to our agreement with the investors, we are subject to restrictions with respect to the sale of our ordinary shares or securities convertible into our equity. We are restricted from selling additional securities of the Company until 30 days have elapsed following the effectiveness of the registration statement of which this prospectus is a part. During the one-year period that then follows, before we are able to sell our securities, in most instances we are required to first offer the securities to the investors pursuant to terms set forth in our agreement with them. The foregoing terms and right of first offer could delay our efforts to raise capital and increase transaction costs and could limit our ability to obtain additional financing.

In connection with the private placement, we have agreed to file the resale registration statement of which this prospectus is a part covering the shares purchased in the private placement (including the shares underlying the warrants) by no later than October 23, 2004. Our failure to obtain effectiveness of the registration statement within the timeframe set forth in our agreements with the investors or to maintain effectiveness of the registration statement could subject us to liquidated damages. We could also be subject to liquidated damages if we fail to (i) file a request that the Securities and Exchange Commission accelerate the effectiveness of the registration statement of which this prospectus is a part within five trading days of our receipt of notice from the Securities and Exchange Commission notifying us that the registration statement will not be reviewed, (ii) file an amendment to the registration statement within ten days of the Securities and Exchange Commission's having notified us that an amendment is necessary for the registration statement to be declared effective, or (iii) maintain listing of our ordinary shares on the NASDAQ SmallCap Market.

The liquidated damages that we would be obligated to pay under the circumstances described are in the amount of 1% of the amount invested and an additional 1% for every month in which we do not cure the issue that led to the obligation.

In accordance with prior agreements, we will also be registering the resale all of the ordinary shares held by Charter, Izhak Nakar and their affiliates on the same registration statement. We are required to maintain an effective registration statement covering the resale of our ordinary shares sold to the investors and the shares issuable upon exercise of the warrants issued to the investors until the earlier of the date that all shares issued and issuable to the investors and the holders of the warrants have been sold and the fifth anniversary of the date on which the registration statement of which this prospectus is a part becomes effective.

In connection with the transaction, Mr. Nakar and Charter agreed to vote in favor of the private placement and to waive preemptive and participation rights.

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### **Acquisition of Our Japanese Distributor**

At the end of August, 2004, we signed a definitive agreement with our longtime partner Toyo Ink Mfg. Co., Ltd. to acquire certain assets from Toyo Ink's EDMS division for consideration of approximately \$1.9 million. The division, established eight years ago and dedicated to the imaging business, has been exclusively marketing and implementing TiS solutions in Japan.

Pursuant to the agreement, Toyo Ink transferred certain customers and sales channels from Toyo's EDMS division to the company. We also received the rights to distribute the Japanese localized version of TiS eFLOW Unified Content Platform. Certain members of the EDMS professional team has been assigned to Top Image Systems, TiS Japan Ltd. in order to ensure the continuity of knowledge and high level services provided to Japanese customers and partners. Top Image Systems, TiS Japan Ltd. is now responsible for all operations in Japan, including technical support and maintenance services for existing, as well as new, channels and customers.

### **VALIDITY OF SECURITIES**

The validity of the ordinary shares, including the ordinary shares issuable upon exercise of the warrants, will be passed upon for us by Ben Zvi Koren, our Israeli counsel.

### **EXPERTS**

The consolidated financial statements of Top Image Systems Ltd. as of December 31, 2003, and for the year ended December 31, 2003, included in our annual report on Form 20-F for the year ended December 31, 2003 and incorporated by reference in this prospectus and

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Registration Statement, have been audited by Kost Forer Gabbay and Kasierer, a member of Ernst and Young global independent auditors, as set forth in their report thereon incorporated herein by reference. The financial statements referred to above are included in reliance on such reports given on the authority of such firms as experts in auditing and accounting.

The consolidated financial statements of Top Image Systems, Ltd as of December 31, 2002, and for each of the years in the two-year period ended December 31, 2002, have been incorporated by reference in this prospectus and Registration Statement in reliance upon the report of Somekh Chaikin a member of KPMG International, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

### **ENFORCEABILITY OF CIVIL LIABILITIES**

Service of process upon us and upon our directors and officers and the Israeli experts named in this prospectus, a substantial number of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because our principal assets and a substantial number of our directors and officers are located outside the United States, any judgment obtained in the United States against us or any of our directors and officers may not be collectible within the United States.

We believe there is doubt concerning the enforceability of civil liabilities under the Securities Act and the Exchange Act in original actions instituted in Israel. However, subject to specified time limitations, Israeli courts may enforce a United States final executory judgment in a civil matter, including a monetary or compensatory judgment in a non-civil matter, obtained after due process before a court of competent jurisdiction according to the laws of the state in which the judgment is given and the rules of private international law currently prevailing in Israel. The rules of private international law currently prevailing in Israel do not prohibit the enforcement of a judgment by Israeli courts provided that:

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- the judgment is enforceable in the state in which it was given;
- adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;
- the judgment and the enforcement of the judgment are not contrary to the law, public policy, security or sovereignty of the state of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties;
- an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court; and
- the laws of the jurisdiction in which the judgment was given do not prevent the enforcement of judgments issued by a court of competent jurisdiction in Israel;

We have irrevocably appointed TIS America, Inc. as our agent to receive service of process in any action against us in any competent court of the United States arising out of this offering or any purchase or sale of securities in connection with this offering.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in Israeli currency, which can then be converted into non-Israeli currency and transferred out of Israel. A common practice in an action before an Israeli court to recover an amount in a non-Israeli currency is for the Israeli court to issue a judgment for the equivalent amount in Israeli currency at the rate of exchange in force on the date of the judgment, but the judgment debtor may make payment in foreign currency. Pending collection, the amount of the judgment of an Israeli court stated in Israeli currency ordinarily will be linked to the Israeli consumer price index plus interest at an annual statutory rate set by Israeli regulations prevailing at the time. Judgment creditors must bear the risk of unfavorable exchange rates.

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### **WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form F-3 under the Securities Act of 1933 with respect to the securities offered by this prospectus. However, as is permitted by the rules and regulations of the SEC, this prospectus, which is part of our registration statement

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on Form F-3, omits certain information, exhibits, schedules and undertakings set forth in the registration statement. For further information about us, and the securities offered by this prospectus, please refer to the registration statement.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are applicable to a foreign private issuer. In accordance with the Exchange Act, we file reports with the SEC, including annual reports on Form 20-F which are required to be filed by June 30 of each year. We also furnish to the SEC under cover of Form 6-K material information required to be made public in Israel, filed with and made public by any stock exchange or distributed by us to our shareholders.

The registration statement on Form F-3 of which this prospectus forms a part, including the exhibits and schedules thereto, and reports and other information filed by us with the SEC may be inspected without charge and copied at prescribed rates at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of this material are also available by mail from the Public Reference Section of the SEC, at 450 Fifth Street, N.W., Washington D.C. 20549, at prescribed rates. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, such as us, that file electronically with the SEC ([www.sec.gov](http://www.sec.gov)). You can find additional information about us at our website, [www.topimagesystems.com](http://www.topimagesystems.com). The information contained on, or linked from, our website is not a part of this prospectus.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to shareholders. In addition, our officers, directors and principal shareholders are exempt from the short-swing profits reporting and liability provisions contained in Section 16 of the Exchange Act and related Exchange Act rules.

### **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The SEC allows us to incorporate by reference the information we file with or submit to it, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information filed with or submitted to the SEC will update and supersede this information. We incorporate by reference into this prospectus the documents listed below:

The Company's Annual Report on Form 20-F for the year ended December 31, 2003, filed June 23, 2004;

The Company's Report on Form 6-K, filed August 24, 2004;

The Company's Report on Form 6-K filed October 12, 2004; and

The Company's Report on Form 6-K filed October 22, 2004.

We will deliver to each person (including any beneficial owner) to whom this prospectus has been delivered a copy of any or all of the information that has been incorporated by reference into this prospectus but not delivered with this prospectus. We will provide this information upon written or oral request, and at no cost to the requester. Requests should be directed to: Top Image Systems Ltd., 2 Habarzel Street, Ramat Hahayal, Tel Aviv 69710, Israel ATTN: Alon Greenberg, Controller.

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### **DISCLOSURE ON COMMISSION POSITION ON SECURITIES ACT LIABILITIES**

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

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You should rely only on the information contained or incorporated by reference into this prospectus or a prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any prospectus supplement, as well as information we have filed with the SEC and incorporated by reference, is accurate as of the date on the front of those documents only. Our business, financial condition, results of operations and prospects may have changed since those dates.

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6,125,713 Shares

Top Image Systems Ltd.

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PROSPECTUS

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Ordinary Shares

October 22, 2004

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## PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

### ITEM 8. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Israeli Companies Law provides that an Israeli company cannot exempt an officer from liability with respect to a breach of his fiduciary responsibilities. While the Companies Ordinance, in effect through 1999, provided that an Israeli company could not exempt an officer from liability with respect to a breach of his duty of care or his duty of loyalty, the Israeli Companies Law now permits such exemption if formulated in accordance with such law. The Israeli Companies Law also permits entitling an office holder to indemnification subject to certain conditions. In the shareholders meeting on December 18, 2003, the Company adopted new Articles of Association which allow for insurance and indemnification for office holders for future liabilities. At the same meeting, the shareholders approved indemnification of the officers and directors of the Company, in the form described herein.

The procurement of director and officer liability insurance or the provision of any such indemnification, as the case may be, must be approved by our Audit Committee and otherwise as required by law. We may not indemnify an office holder or enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of the following: (i) a breach by the office holder of his duty of care if such breach was done intentionally or in disregard of the circumstances of the breach of its consequences; (ii) a breach by the office holder of his duty of loyalty unless he acted in good faith and had a reasonable basis to believe that his act or omission would not prejudice our interests; (iii) any act or omission done with the intent to derive an illegal personal benefit; or (iv) any fine levied against the office holder as a result of a criminal offense.

Currently, we hold an insurance policy for our office holders that provides coverage limited to \$10,000,000 in aggregate for the policy period, ending on December 31, 2004.

### RECENT SALES OF UNREGISTERED SECURITIES

See the section entitled "Material Changes" for a description of our private placement which closed on September 24, 2004.

### ITEM 9. EXHIBITS

<u>Number</u>	<u>Description</u>
3.1	Articles of Association of the Company, incorporated by reference to (incorporated by reference to exhibit 3.1 to the Company's Registration Statement on Form F-1 (registration number 333-05718).
3.2	Memorandum of Association of the Company (incorporated by reference to exhibit 3.2 to the Company's Registration Statement on Form F-1 (registration number 333-05718).
4.1	Form of Public Warrant Agreement between the Company, the Warrant Agent and the Underwriter (incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
4.2	Form of Public Warrant Certificate (incorporated by reference to exhibit 4.3 to the Company's Registration Statement on Form F-1 (registration number 333-05718)).



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- 4.3 Form of Underwriter's Warrant Agreement (incorporated by reference to exhibit 4.4 to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 4.4 Top Image Systems, Ltd. Employee Stock Option Plan (1996) (incorporated by reference to exhibit 10.1 to the Company's Registration Statement on Form S-8 (registration number 333-11560)).
- 4.5 Form of Stock Option Agreement covering grants to individuals dated August 20, 1996 (incorporated by reference to exhibit 10.2 to the Company's Registration Statement on Form S-8 (registration number 333-11560)).
- 4.6 Top Image Systems Ltd. Employee Share Option Plan (2000) (incorporated by reference to the Company's annual report on Form 20-F for the year ended December 31, 2003).

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- 5.1 Opinion of Ben Zvi Koren regarding legality.
- 10.1 Contract between the Company and JCC Payments Systems, Ltd. for the Supply, Installation and Development of Bespoke Software of the JCC Image System, dated June 24, 1996 (incorporated by reference to exhibit 10.1(a) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.2 Contract for the Support & Maintenance of Software of the JCC Image System, between the Company and JCC Payments Systems, Ltd., dated June 24, 1996 (incorporated by reference to exhibit 10.1(b) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.3 Contract between the Company and Unicre, Cartao Internacional de Credito, SA., for the Supply, Installation and Development of Software System, dated June 20, 1994 (incorporated by reference to exhibit 10.1(c) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.4 Software Maintenance Agreement between the Company and Unicre, Cartao Internacional de Credito, SA., dated July 20, 1994 (incorporated by reference to exhibit 10.1(d) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.5 English translation of Agreement between the Company and Isracard Ltd. for the Supply, Installation and Development of Software System, dated November 4, 1993 (incorporated by reference to exhibit 10.1(e) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.6 Agreement between the Company and Isracard Ltd. for the Supply, Installation and Development of Software System, dated November 4, 1993 (incorporated by reference to exhibit 10.1(f) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.7 English translation of Agreement between the Company and Israel Credit Card, Ltd. for the Supply, Installation and Development of Software System, dated December 4, 1991 (incorporated by reference to exhibit 10.1(g) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.8 Agreement between the Company and Israel Credit Card, Ltd. for the Supply, Installation and Development of Software System, dated December 4, 1991 (incorporated by reference to exhibit 10.1(h) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.9 Exclusive Software Distribution Agreement between the Company and Hasso Corporation, dated June 28, 1996 (incorporated by reference to exhibit 10.1(i) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.10 Second Amendment, dated March 27, 2001, to the Exclusive Software Distribution Agreement between the Company and Hasso Corporation, dated June 28, 1996.
- 10.11 Memorandum Agreement between the Company and Hasso Corporation, dated March 13, 1996 (incorporated by reference to exhibit 10.1(j) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).

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- 10.12 Exclusive Software Distribution Agreement between the Company and Daewoo Information Systems Co., Ltd. dated January 29, 1994 (incorporated by reference to exhibit 10.1(k) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.13 English translation of Entrepreneur Agreement among the Company, Micro Daf Industries 80, Ltd. and Israeli Credit Card, Ltd. dated October 31, 1995 (incorporated by reference to exhibit 10.2(a) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.14 Entrepreneur Agreement among the Company, Micro Daf Industries 80, Ltd. and Israeli Credit Card, Ltd. dated October 31, 1995 (incorporated by reference to exhibit 10.2(b) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.15 Employee Agreement between the Company and Ofer Comay (incorporated by reference to exhibit 10.4(a) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).

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- 10.16 Employee Agreement between the Company and Yossi Karchi (incorporated by reference to exhibit 10.4(b) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.17 Employee Agreement between the Company and Ziv Koren (incorporated by reference to exhibit 10.4(c) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.18 Employee Agreement between the Company and Stuart Melnick (incorporated by reference to exhibit 10.4(d) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.19 Employee Agreement between the Company and Izhak Nakar (incorporated by reference to exhibit 10.4(e) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.20 Employee Agreement between the Company and Ido Schechter (incorporated by reference to exhibit 10.4(f) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.21 Employee Agreement between the Company and Yehezkel Yeshurun (incorporated by reference to exhibit 10.4(g) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
- 10.22 English translation of an Employment Agreement between the Company and Arie Rand (incorporated by reference to exhibit 3.25 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.23 English translation of a Personal Employment Agreement between the Company and Tal Marom (incorporated by reference to exhibit 3.26 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.24 English translation of an Amendment to Employment Agreement between the Company and Tal Marom (re: updating of compensation and position for 2001) (incorporated by reference to exhibit 3.27 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.25 English translation of a Personal Employment Agreement between the Company and Norman Kreger (incorporated by reference to exhibit 3.28 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.26 English translation of a Salary Adjustment letter for Norman Kreger (incorporated by reference to exhibit 3.29 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.27 English translation of a Personal Employment Agreement between the Company and Amos Eliav (incorporated by reference to exhibit 3.30 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.28 English translation of a Salary Adjustment letter for Amos Eliav (incorporated by reference to exhibit 3.31 to the Company's annual report on Form 20-F (registration number 001-14552)).

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- 10.29 Share Purchase Agreement, dated as of February 11, 2000, by and between Charter-TIS LLC and the Company, as amended by Amendment #1 thereto, dated as of April 28, 2000 (incorporated by reference to exhibit 3.32 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.30 Registration Rights Agreement, dated as of May 8, 2000, among the Company, Charter-TIS LLC and Izhak Nakar (incorporated by reference to exhibit 3.33 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.31 Preemptive Rights Agreement, dated as of May 8, 2000, between the Company and Izhak Nakar (incorporated by reference to exhibit 3.34 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.32 English translation of Employment Agreement between the Company and Jonathan Heller dated December 24, 2001 (incorporated by reference to exhibit 3.35 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.33 English translation of Update to Employment Agreement between the Company and Jonathan Heller dated February 28, 2002 (incorporated by reference to exhibit 3.36 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).

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- 10.34 English translation of Employment Agreement between the Company and Oded Leiba dated March 19, 2001 (incorporated by reference to exhibit 3.37 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.35 English translation of Employment Agreement between the Company and Dan Inbar dated December 31, 2001 (incorporated by reference to exhibit 3.38 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.36 Value-Added Reseller Agreement for ODT Document Technologies' Products between the Company and Océ Document Technologies dated August 2, 2001 (incorporated by reference to exhibit 3.39 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.37 OEM License Agreement between the Company and CharacTell Ltd. dated July 16, 2001 (incorporated by reference to exhibit 3.40 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.38 Second Amendment to the Exclusive Software Distribution Agreement Dated June 28, 1996, as amended, between the Company and Hasso Corporation (as a predecessor entity to Toyo Ink Manufacturing Co., Ltd.) dated March 27, 2001. (incorporated by reference to exhibit 3.41 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.39 Agreement between the Company and Elsag spa regarding software and services for the population census of Italy dated March 18, 2002 (incorporated by reference to exhibit 3.42 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.40 Statement of Work to Subcontractor Agreement between the Company and NCR (Cyprus) Ltd. regarding software and services for the population census of Italy dated June 22, 2001 (incorporated by reference to exhibit 3.43 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.41 Agreement between the Company and CMC Ltd. regarding software and services for the population census of India dated December 12, 2001 (incorporated by reference to exhibit 3.44 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.42 Separation Agreement between the Company and Mr. Peter Nowak dated May 15, 2002 (incorporated by reference to exhibit 3.45 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.43 Securities Purchase Agreement between the Company and the Purchasers named therein, dated as of June 10, 2004 (incorporated by reference to exhibit 99.3 to the Company's current report on Form 6-K filed June 10, 2004).

- 10.44 Form of Warrant issuable in connection with the Securities Purchase Agreement between the Company and the Purchasers named therein, dated as of June 10, 2004 (incorporated by reference to exhibit 99.2 to the Company's current report on Form 6-K filed June 10, 2004).
- 21.1 Subsidiaries of the Registrant (incorporated by reference to the Company's annual report on Form F-1 for the year ended December 31, 2003).
- 23.1 Consent of Somekh Chaikin member firm of KPMG International.
- 23.2 Consent of Kost, Forer Gabbay and Kasierer member of Ernst & Young Global.
- 23.3 Consent of Ben Zvi Koren included in Exhibit 5.1.

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## ITEM 10. UNDERTAKINGS

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) (§230.424(b) of this chapter) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, That paragraphs (a)(1)(i) and (a)(1)(ii) of this section do not apply if the registration statement is on Form S-3 (§239.13 of this chapter) or Form S-8 (§239.16b of this chapter) or Form F-3 (§239.33 of this chapter), and

the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

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(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) If the registration is a foreign private issuer, to file a post-effective amendment to the registration statement to include any financial statements required by §210.3-19 of this chapter at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, provided that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to registration statements on Form F-3 (§239.33 of this chapter), a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Act or § 210.3-19 of this chapter if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Form F-3.

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#### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Tel Aviv, State of Israel, on October 22, 2004.

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Top Image Systems Ltd.

By /s/ Ido Schechter

Ido Schechter  
Chief Executive Officer

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Ido Schechter and Arie Rand, and each of them, his or her true and lawful attorneys-in-fact and agents with full power of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities, to (i) act on, sign and file with the Securities and Exchange Commission any and all amendments (including post-effective amendments) to this Registration Statement, together with all schedules and exhibits thereto, and any subsequent registration statement relating to the same offering of securities as this Registration Statement on Form F-3 that are filed pursuant to the requirements of Rule 462(b) under the Securities Act of 1933, as amended, together with all schedules and exhibits thereto, (ii) act on, sign and file such certificates, instruments, agreements and other documents as may be necessary or appropriate in connection therewith, (iii) act on, sign and file any supplement to any prospectus relating to the same offering of securities as this Registration Statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and (iv) take any and all actions which may be necessary or appropriate to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his or her substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

/s/ Ido Schechter

Ido Schechter  
Chief Executive Officer  
Date: October 22, 2004

/s/ Arie Rand

Arie Rand  
Chief Financial Officer  
Date: October 22, 2004

/s/ Thomas C. Lavey

Thomas C. Lavey  
Chairman of the Board of Directors  
Date: October 22, 2004

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/s/ Victor Halpert

Victor Halpert  
Director  
Date: October 22, 2004

/s/ Zamir Bar Zion

Zamir Bar Zion

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Director  
Date: October 22, 2004

/s/ Izhak Nakar

Izhak Nakar  
Director  
Date: October 22, 2004

/s/ William M. Landuyt

William M. Landuyt  
Director  
Date: October 22, 2004

/s/ Elie Housman

Elie Housman  
Director  
Date: October 22, 2004

/s/ Phyllis Haberman

Phyllis Haberman  
Director  
Date: October 22, 2004

Authorized Representative in the United  
States :

TIS America, Inc.

By: /s/ Ido Schechter

Ido Schechter  
CEO

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**EXHIBIT INDEX**

**Number**

**Description**

- |     |   |
|-----|---|
| 3.1 | Articles of Association of the Company, incorporated by reference to (incorporated by reference to exhibit 3.1 to the Company's Registration Statement on Form F-1 (registration number 333-05718). |
| 3.2 | Memorandum of Association of the Company (incorporated by reference to exhibit 3.2 to the Company's Registration Statement on Form F-1 (registration number 333-05718).                             |
| 4.1 |   |

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Form of Public Warrant Agreement between the Company, the Warrant Agent and the Underwriter (incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form F-1 (registration number 333-05718)).

- 4.2 Form of Public Warrant Certificate (incorporated by reference to exhibit 4.3 to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
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- 10.8 Agreement between the Company and Israel Credit Card, Ltd. for the Supply, Installation and Development of Software System, dated December 4, 1991 (incorporated by reference to exhibit 10.1(h) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).

- 10.9 Exclusive Software Distribution Agreement between the Company and Hasso Corporation, dated June 28, 1996 (incorporated by reference to exhibit 10.1(i) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).



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- 10.10 Second Amendment, dated March 27, 2001, to the Exclusive Software Distribution Agreement between the Company and Hasso Corporation, dated June 28, 1996.
- 10.11 Memorandum Agreement between the Company and Hasso Corporation, dated March 13, 1996 (incorporated by reference to exhibit 10.1(j) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
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- 10.14 Entrepreneur Agreement among the Company, Micro Daf Industries 80, Ltd. and Israeli Credit Card, Ltd. dated October 31, 1995 (incorporated by reference to exhibit 10.2(b) to the Company's Registration Statement on Form F-1 (registration number 333-05718)).
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- 10.23 English translation of a Personal Employment Agreement between the Company and Tal Marom (incorporated by reference to exhibit 3.26 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.24 English translation of an Amendment to Employment Agreement between the Company and Tal Marom (re: updating of compensation and position for 2001) (incorporated by reference to exhibit 3.27 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.25 English translation of a Personal Employment Agreement between the Company and Norman Kreger (incorporated by reference to exhibit 3.28 to the Company's annual report on Form 20-F (registration number 001-14552)).

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- 10.26 English translation of a Salary Adjustment letter for Norman Kreger (incorporated by reference to exhibit 3.29 to the Company's annual report on Form 20-F (registration number 001-14552)).

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- 10.27 English translation of a Personal Employment Agreement between the Company and Amos Eliav (incorporated by reference to exhibit 3.30 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.28 English translation of a Salary Adjustment letter for Amos Eliav (incorporated by reference to exhibit 3.31 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.29 Share Purchase Agreement, dated as of February 11, 2000, by and between Charter-TIS LLC and the Company, as amended by Amendment #1 thereto, dated as of April 28, 2000 (incorporated by reference to exhibit 3.32 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.30 Registration Rights Agreement, dated as of May 8, 2000, among the Company, Charter-TIS LLC and Izhak Nakar (incorporated by reference to exhibit 3.33 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.31 Preemptive Rights Agreement, dated as of May 8, 2000, between the Company and Izhak Nakar (incorporated by reference to exhibit 3.34 to the Company's annual report on Form 20-F (registration number 001-14552)).
- 10.32 English translation of Employment Agreement between the Company and Jonathan Heller dated December 24, 2001 (incorporated by reference to exhibit 3.35 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.33 English translation of Update to Employment Agreement between the Company and Jonathan Heller dated February 28, 2002 (incorporated by reference to exhibit 3.36 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.34 English translation of Employment Agreement between the Company and Oded Leiba dated March 19, 2001 (incorporated by reference to exhibit 3.37 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.35 English translation of Employment Agreement between the Company and Dan Inbar dated December 31, 2001 (incorporated by reference to exhibit 3.38 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.36 Value-Added Reseller Agreement for ODT Document Technologies' Products between the Company and Océ Document Technologies dated August 2, 2001 (incorporated by reference to exhibit 3.39 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.37 OEM License Agreement between the Company and CharacTell Ltd. dated July 16, 2001 (incorporated by reference to exhibit 3.40 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.38 Second Amendment to the Exclusive Software Distribution Agreement Dated June 28, 1996, as amended, between the Company and Hasso Corporation (as a predecessor entity to Toyo Ink Manufacturing Co., Ltd.) dated March 27, 2001. (incorporated by reference to exhibit 3.41 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.39 Agreement between the Company and Elsag spa regarding software and services for the population census of Italy dated March 18, 2002 (incorporated by reference to exhibit 3.42 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.40 Statement of Work to Subcontractor Agreement between the Company and NCR (Cyprus) Ltd. regarding software and services for the population census of Italy dated June 22, 2001 (incorporated by reference to exhibit 3.43 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.41 Agreement between the Company and CMC Ltd. regarding software and services for the population census of India dated December 12, 2001 (incorporated by reference to exhibit 3.44 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).

- 10.42 Separation Agreement between the Company and Mr. Peter Nowak dated May 15, 2002 (incorporated by reference to exhibit 3.45 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2001).
- 10.43 Securities Purchase Agreement between the Company and the Purchasers named therein, dated as of June 10, 2004 (incorporated by reference to exhibit 99.3 to the Company's current report on Form 6-K filed June 10, 2004).
- 10.44 Form of Warrant issuable in connection with the Securities Purchase Agreement between the Company and the Purchasers named therein, dated as of June 10, 2004 (incorporated by reference to exhibit 99.2 to the Company's current report on Form 6-K filed June 10, 2004).
- 21.1 Subsidiaries of the Registrant (incorporated by reference to the Company's annual report on Form F-1 for the year ended December 31, 2003).
- 23.1 Consent of Somekh Chaikin member firm of KPMG International.
- 23.2 Consent of Kost, Forer Gabbay and Kasierer member of Ernst & Young Global.
- 23.3 Consent of Ben Zvi Koren included in Exhibit 5.1.