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COMMTOUCH SOFTWARE LTD

Form F-3

July 01, 2004

As filed with the Securities and Exchange Commission on July 1, 2004.

Registration No. 333-

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

FORM F-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

COMMTOUCH SOFTWARE LTD.  
(Exact name of registrant as specified in its charter)

Israel  
(State or other jurisdiction of  
incorporation or organization)

Not Applicable  
(I.R.S. Employer  
Identification No.)

1A Hazoran Street  
Poleg Industrial Park, P.O. Box 8511  
Netanya 42504, Israel  
011-972-9-863-6888  
(Address, including zip code and telephone number,  
including area code, of registrant's principal executive offices)

c/o Commtouch Inc.  
Devyani Patel, Vice President, Finance  
1300 Crittenden Lane, Ste. 103  
Mountain View, California 94043  
(650) 864-2000  
(Name, address, including zip code and telephone number,  
including area code, of agent for service)

Copies to:

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General Counsel & Secretary  
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Approximate date of commencement of the proposed sale of the securities to the public: From time to time after the Registration Statement becomes effective.

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, please 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.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this 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 such date as the Commission, acting pursuant to said Section 8(a), may determine.

Calculation of Registration Fee

Title of Each Class of Securities To Be Registered	Proposed Maximum Amount to be Registered(1)	Proposed Aggregate Price Per Unit(2)	Maximum Offeri
ordinary shares, NIS 0.05 nominal value per share	23,363,879	\$0.59	\$13,7

EXPLANATORY NOTE

Pursuant to Rule 429 under the Securities Act of 1933, as amended, the prospectus which is a part of this registration statement also incorporates and amends the prospectus that is included in the Registration Statement on Form F-3 No. 333-1111734 filed on January 6, 2004.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED.  
 THE SELLING SECURITYHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE  
 REGISTRATION STATEMENT FILED WITH THE  
 SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE.  
 THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND  
 IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE  
 WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JUNE \_\_, 2004

PROSPECTUS

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Commtouch Software Ltd.

27,526,358 Ordinary Shares

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Private Placements of Ordinary Shares, Additional Investment Shares, Convertible Notes and Warrants

As we describe further below under "Plan of Distribution," the selling securityholders identified in this prospectus are selling up to 27,526,358 of our ordinary shares, 6,331,583 of which underlie warrants actually issued. The warrants themselves are not being offered by this prospectus. Most of the selling securityholders acquired the ordinary shares and rights to purchase ordinary shares from the Company in two private placements - a convertible note transaction entered into on November 26, 2003 and a private equity sale transaction of May 18, 2004 (only Iroquois Capital LP was not a participant in the November 2003 transaction). Shareholders of the Company approved the May 18th transaction at an extraordinary meeting of shareholders held on June 28, 2004. The ordinary shares offered hereby have been registered pursuant to registration rights granted to the selling securityholders by the Company. These securities may be offered from time to time by the selling securityholders through public or private transactions, on or off the Nasdaq SmallCap Market, at prevailing market prices or at privately negotiated prices. The selling securityholders will receive all of the proceeds from this offering and will pay all underwriting discounts and selling commissions, if any, applicable to the sale of the securities. The Company has agreed to indemnify the selling securityholders against certain liabilities, including liabilities under the Securities Act.

The ordinary shares are being offered by the selling securityholders subject to prior sale, subject to their right to reject offers in whole or in part and subject to certain other conditions.

The selling securityholders may be deemed to be "underwriters" within the meaning of the Securities Act and any profits realized by them may be deemed to be underwriting commissions. Any broker-dealers that participate in the distribution of ordinary shares also may be deemed to be "underwriters," as defined in the Securities Act, and any commissions or discounts paid to them, or any profits realized by them upon the resale of any securities purchased by them as principals, may be deemed to be underwriting commissions or discounts under the Securities Act. The sale of the ordinary shares is subject to the prospectus delivery requirements of the Securities Act.

Our ordinary shares are currently traded on the Nasdaq SmallCap Market under the symbol "CTCHC." On June 30, 2004 the last reported sales price of an ordinary share on the Nasdaq SmallCap Market was \$0.60 per share.

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This investment involves risk. See "Risk Factors" beginning on page 7.

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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 \_\_\_\_\_, 2004

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### SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This document contains forward-looking statements, including projections about our business, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. For example, statements in the future tense, and statements including words such as "expect," "plan," "intend," "seek," "estimate," "anticipate," and "believe" and similar expressions are forward-looking statements. These statements are based on information available to us at the time of the preparation of this document; we assume no obligation to update any of them, to the extent that we are not so required under applicable law. The statements in this document are not guarantees of future performance and actual results could differ materially from our current expectations as a result of numerous factors, including business conditions and growth or deterioration in our market, commerce and the general economy both domestic as well as international; fewer than expected new-partner relationships; competitive factors including pricing pressures; technological developments, and products offered by competitors; the adoption of new legal penalties which may discourage the distribution of unsolicited email messages; availability of qualified staff for expansion; and technological difficulties and resource constraints encountered in developing new products as well as those risks described below and in the Company's Annual Reports on Form 20-F and reports on Form 6-K, which are available through [www.sec.gov](http://www.sec.gov).

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### COMMTOUCH SOFTWARE LTD.

We are a provider of anti-spam solutions to enterprise customers. The Company offers its anti-spam solutions to small, medium and large enterprises through a variety of distribution channels, namely various reseller channels. The solutions are also available for integration with security, content filtering, anti-virus and other filtering solutions through alliances and strategic partnerships. A combination of proprietary and patent-pending technologies makes it possible for Commtouch to detect, alert and block most spam attacks as they are distributed over the Internet.

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Our enterprise anti-spam solution consists of both a software element (the "Enterprise Gateway") and a service component (the "Service Center"). At the Enterprise Gateway, messages are filtered at the customer organization's entry point, before being distributed to recipients, with added user-level controls and a top level of secure spam detection services from the Service Center, all allowing for real-time reaction to worldwide spam attacks. At the heart of the solution, however, is the Service Center, which detects new spam attacks as soon as they are launched and distributed over the Internet. The Service Center provides real-time spam detection services to enterprise customers by maintaining constant communication with Enterprise Gateways that are locally installed at customer premises in different locations worldwide. The Service Center collects information from multiple sources about new spam attacks, analyzes the input using Commtouch patent-pending technology, identifies and detects spam, classifies the data, matches its stored information against outstanding queries for spam detection from Enterprise Gateways and replies in real-time back to the Enterprise Gateways with a prioritized and accurate resolution. The whole process takes no more than 300ms (round-trip time excluding Internet latency). Enterprise privacy is kept at a maximum because the content of incoming email messages is not seen by the Service Center.

In particular, the Commtouch anti-spam solution operates to help eliminate spam as follows:

Inbound email enters the Enterprise Gateway, a software add-on to the enterprise SMTP server.

The Enterprise Gateway matches key characteristics of the message with predefined spam policies created by IT managers or end-users.

If the solution does not match the message to a known source, either spam or non-spam, it compares characteristics of the incoming message against the Enterprise Gateway cache of recently identified spam.

If the message remains suspicious, but cannot be confirmed as spam, the Enterprise Gateway queries the Service Center for remote spam detection and classification services.

The outgoing query consists of digital signatures taken from e-mail header information. The signatures may be hashed (one-way encrypted) to ensure enterprise security and confidentiality. The query does not contain the full email body or its attachments and it is therefore very small in size (500 Bytes).

The Service Center weighs the values of the outstanding query against its vast database of real-time information about known spam patterns and sources of spam, and replies to the Enterprise Gateway with a unique and up-to-date classification.

The Enterprise Gateway applies a locally predefined action to the message and may store the information internally to match against new incoming messages bearing similar characteristics.

We also offer a Software Development Kit ("SDK"). The SDK enables third-party vendors to integrate the Commtouch anti-spam solution advantages into their existing offerings, providing them with full spam identification and spam classification services from the Service Center. These vendors benefit from Commtouch expertise in blocking spam and other unwanted email traffic without the need to develop and dedicate a service department in-house. The SDK communicates fully with the remote Service Center, receiving results to queries about suspicious messages and acting according to set policies on the customer side. Each such vendor has the flexibility to determine how best to integrate the SDK results into their solution. For example, if the Service Center

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classifies a specific message as spam, the vendor's application may respond by either quarantining the message, rejecting it completely or sending a bounce-back message to its sender or any other option provided by the vendor's specific application.

The SDK consists of a set of APIs, which receive characteristics of incoming messages as input from the vendor's application, returning the status of the message as output from the Service Center. The vendor has the option of installing an API, which returns a deterministic result classifying messages as either spam or non-spam, or using an API that classifies messages based on the level of suspicion that the message is spam. Each vendor can implement its solution differently, making the unique advantages of SDK flexible to match particular needs.

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Products that may benefit from integration of the SDK solution include:

- o Anti-virus applications
- o Content filtering solutions
- o Firewall systems
- o Security servers
- o Other network appliances

Further, we are in the infancy stage of marketing an Internet Solution Provider anti-spam solution ("ISP Solution"). ISPs purchasing this solution will install Commtouch software ("engine") on a front end server (in front of the ISP's messaging server), which will initially receive and classify email, in conjunction with the detection capabilities of the Commtouch Detection Center. ISPs will be allowed the flexibility of defining which Internet protocols (IPs) will be banned from delivering messages to their messaging system, and those messages that are allowed to enter but are suspected of being spam will be delivered to end users with a special tag identifying them as suspected spam.

### Office Location

Our principal executive offices are located at 1A Hazoran Street, Poleg Industrial Park, Netanya 42504, Israel, where our telephone number is 011-972-9-863-6888, and our wholly owned subsidiary, Commtouch Inc., is located at 1300 Crittenden Lane, Suite 103, Mountain View, California 94043, with a telephone number of (650) 864-2000. Our website address is [www.commtouch.com](http://www.commtouch.com).

### RISK FACTORS

You should carefully consider the following risk factors before you decide to buy our ordinary shares. You should also consider the other information in this prospectus. If any of the following risks actually occur, our business, financial condition, operating results or cash flows could be materially adversely affected. This could cause the trading price of our ordinary shares to decline, and you could lose part or all of your investment. The risks described below are not the only ones facing us. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our business operations.

#### Business Risks

If the market does not respond favorably to our current and future anti-spam solutions, we will fail to generate revenues.

Our success will depend on the acceptance and use of our anti-spam solutions by

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enterprise and ISP customers. We cannot estimate the size or growth rate of the potential market for our anti-spam offerings. If the market for anti-spam solutions fails to grow or grows more slowly than we currently anticipate, our business will suffer dramatically. Even if that market grows, our solutions may not achieve broad market acceptance and our business could fail. Since we released our first anti-spam solution for general distribution only in late June 2003, and anti-spam solutions to be released by us in the future remain unproven, we still do not have enough experience to evaluate whether our offerings will achieve broad market acceptance.

**Our Business May be Adversely Affected as a Consequence of Legislation Imposing Legal Penalties on Distributors of Unsolicited Email**

On December 16, 2003, President Bush signed into law the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM Act), which establishes a framework of administrative, civil, and criminal tools to combat spam. The law establishes both civil and criminal prohibitions to assist in deterring the most offensive forms of spam, including unmarked sexually-oriented messages and e-mails containing fraudulent headers. Under the law, senders of email are required to honor a request by a consumer not to receive any further unsolicited messages.

In addition, various state legislatures have enacted laws aimed at regulating the distribution of unsolicited email.

Companies that send business-related e-mail messages from or to the countries in the European Union should be aware that each member state in the European Union was obligated by October 2003 to implement the Electronic Communications Directive that imposes restrictions on the use of unsolicited e-mail for commercial purposes.

These and similar legal measures may have the effect of reducing the amount of unsolicited email that is distributed and hence diminish the need for our anti-spam solutions. Any such developments would have an adverse impact on our revenues.

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**Dependence upon resellers and product concentration**

The Company expects that it will continue to be dependent upon resellers for a significant portion of its revenues, which will be derived from sales of the Company's anti-spam solutions. Also, the Company is still developing its distribution channels and is currently dependent on a relatively small number of its global resellers/channel partners to close the majority of sales transactions. If anticipated orders from these resellers fail to materialize, or one of the key resellers/distribution channels ceases the promotion of the Company's business, operating results and financial condition will be materially adversely affected.

Our future revenues are difficult to predict and our quarterly operating results may fluctuate which could adversely affect the value of your investment.

Because we have a limited history with our relatively new anti-spam solutions and because of the emerging nature of the markets in which we compete, our revenue is difficult to predict. Our current and future expense levels are to a large extent fixed. We may be unable to adjust spending quickly to compensate for any revenue shortfall, and any significant revenue shortfall would have an immediate negative effect on our results of operations and share price.

A number of factors, many of which are enumerated in this "Risk Factors" section, are likely to cause fluctuations in our operating results and/or cause

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our share price to decline. Other factors which may cause such fluctuations include:

- o Our ability to successfully develop and market our anti-spam solutions to new markets, both domestic and international;
- o The market acceptance of our new anti-spam solutions;
- o The size, timing and fulfillment of orders for our new anti-spam solutions;
- o Our ability to expand our workforce with qualified personnel, as may be needed;
- o Unanticipated bugs or other problems arising in providing our new anti-spam solutions to customers;
- o The success of our resellers' sales efforts to potential customers;
- o The solvency of our resellers and their ability to allocate sufficient resources towards the marketing of our new anti-spam solutions to their potential customers;
- o The rate of adoption of anti-spam solutions by customers in the current economic environment;
- o The threat of de-listing by the NASDAQ;
- o The receipt or payment of irregular or nonrecurring revenues or expenses;
- o Our ability to successfully develop and market new, modified and/or upgraded solutions, as may be needed;
- o The substantial decrease in information technology spending;
- o Pricing of our solutions;
- o Our ability to timely collect fees owed by resellers/customers; and
- o Effectiveness of our customer support, whether provided by our resellers or directly by Commtouch.

Because of differing operational factors and the material changes to our business model, period-to-period comparisons of our operating results are not a good indication of our future performance. It is likely that our operating results in some quarters will be below market expectations. Because we have been and will be going to market with new solutions and have been marketing our enterprise solution only since late June 2003, it is difficult to evaluate our business and prospects.

We commenced operations in 1991. Up to 1998, we focused on selling, maintaining and servicing stand-alone email client software products for mainframe and personal computers. From 1998 through 2001, we were a provider of outsourced Web-based email services and, during the first half of 2002, we concentrated on marketing our software messaging solution. In mid-2002, we began focusing exclusively on completing development of and selling our new anti-spam solutions. This change required us to once again adjust our business processes and to readjust the workforce at Commtouch (predominantly, the sales force). Therefore, we have little operating history as a provider of our new anti-spam solutions upon which you may be able to evaluate our business and prospects. It is still too early to judge whether this business will succeed.



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We have many established competitors who are offering a multitude of solutions to the spam problem

The market for anti-spam solutions is intensely competitive and we expect it to be increasingly competitive. Increased competition could result in pricing pressures, low operating margins and the realization of little or no market share, any of which could cause our business to suffer.

In the market for anti-spam solutions, there are a large number of providers offering "content filtering" solutions (solutions focusing solely on the content of potential spam email). Other providers that offer forms of software (gateway) and/or service based solutions and which may be viewed as direct competitors to

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Commtouch include Brightmail(R) and Postini(R). There is a great likelihood that, as the market for anti-spam solutions further develops and given the difficult technological hurdles in attempting to create an effective solution, established Internet security players will enter the market, who may be able to leverage their market position and resources to capture a portion of the anti-spam market.

As this market continues to develop, a number of companies with greater resources than ours could attempt to increase their presence in this market by acquiring or forming strategic alliances with our competitors or business partners. Competitors could introduce products with superior features, scalability and functionality at lower prices than our products and could also bundle existing or new products with other more established products that discourage users from purchasing our products. In addition, because there are relatively low barriers to entry for the software market, we expect additional competition from other established and emerging companies. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could harm our business.

Also, there are companies that develop and maintain in-house anti-spam solutions, such as Microsoft(R) and Yahoo(R). These and other companies could potentially leverage their existing capabilities and relationships to enter the anti-spam industry.

Our market's level of competition is likely to increase as current competitors increase the sophistication of their offerings and as new participants enter the market. In the future, as we expand our offerings, we may encounter increased competition in the development and distribution of these solutions. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and greater financial, technical, sales, marketing and other resources than we do and may enter into strategic or commercial relationships on more favorable terms. Some of these competitors have research and development capabilities that may allow them to develop new or improved products that may compete with product lines we market and distribute. New technologies and the expansion of existing technologies may increase competitive pressures on us. We may not be able to compete successfully against current and future competitors.

(R)Brightmail, Postini, Microsoft and Yahoo are trademarks of Brightmail, Inc., Postini, Inc., Microsoft Corporation and Yahoo! Inc., respectively.

Our ability to increase our revenues will depend on our ability to successfully execute our sales and marketing plan

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The complexity of the underlying technological base of our anti-spam solutions and the current landscape of the anti-spam market require highly trained sales and marketing personnel to educate prospective resellers and customers regarding the use and benefits of our solutions. It may take time for our current and future employees and resellers to learn how to most effectively market our solutions. Additionally, we are unable to predict the possibility of success selling newly introduced solutions for which we have little marketing experience and on which we are relying to produce a substantial portion of our revenues in the future. As a result of these factors, our sales and marketing organization may not be able to compete successfully against bigger and more experienced sales and marketing organizations of our competitors.

We have a history of losses and may never achieve profitability

We incurred net losses of approximately \$61.0 million in 2001, \$4.9 million in 2002 and \$6.8 million in 2003. As of December 31, 2003 and March 31, 2004, we had an accumulated deficit of approximately \$158.5 million and approximately \$160.1 million, respectively. We entered a new and unstable market due to launching the anti-spam solution, we have not achieved profitability in any period, and we might continue to incur net losses in the future. If we do not achieve profitability, our share price may decline further.

Possible need for additional funds

The Company remains very thinly capitalized. As such, we might become dependent upon raising additional funds to finance our business. Our cash balance at December 31, 2003 and March 31, 2004 was approximately \$4.1 million and approximately \$4.6 million, respectively. In connection with the two private placements that occurred in July 2003, we raised \$3,040,000. In addition, upon the exercise of certain warrants by the previous convertible loan holders and the closing of the new convertible loan transaction entered into by the Company in late November 2003, the Company received an additional amount of approximately \$4,000,000. See "Risk Factors--Investment Risks--We may need additional capital" below. If we are unable to raise additional funds, the Company could fail. There can be no assurance that we will be able to raise necessary funds or that we will be able to do so on terms acceptable to us. If needed, our inability to obtain adequate capital would limit our ability to continue our operations. Any such additional funding may result in significant dilution to existing shareholders.

On May 18, 2004, the Company entered into a definitive agreement for the private placement of ordinary shares of the Company to existing institutional investors for gross proceeds of approximately \$3.9 million, which recently successfully closed. In the past we have received funds for the development of our business from the State of Israel through the Office of the Chief Scientist, or the OCS.

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Grants received from the OCS through 2002 that the Company potentially will be obligated to repay totaled approximately \$800,000.

Risk of Litigation

Legal proceedings can be expensive, lengthy and disruptive to normal business operations, regardless of their merit. Moreover, the results of complex legal proceedings are difficult to predict and an unfavorable resolution of a lawsuit or proceeding could have a material adverse effect on the Company's business,

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results of operations or financial condition.

In May 2003, Commtouch settled the shareholder class action lawsuit filed on behalf of shareholders against the Company in early 2001. The litigation was initiated against the company and two members of management in response to the Company's announcement that it had decided to restate unaudited earnings for the first three quarters of 2000, alleging violations of the antifraud provisions of the Securities Exchange Act of 1934.

### Indemnification of Directors and Officers

The Company has agreements with its directors, subject to Israeli law, that provide for the Company to indemnify these directors for any of the following obligations or expenses incurred as a result of an act or omission of such persons in their capacity as directors: (a) any monetary obligation imposed upon them for the benefit of a third party by a judgment, including a settlement or an arbitration decision, confirmed by the court, and (b) reasonable litigation expenses, including legal fees, actually incurred by such a director or imposed upon the director by a court order, in a proceeding brought against him/her by or on behalf of the Company or by others, or in connection with a criminal proceeding in which he/she was acquitted, or in connection with a criminal action which does not require criminal intent in which he/she was convicted.

### Risk due to economic conditions

Should economic conditions fail to improve, our ability to sell our new anti-spam solutions could be negatively impacted. Furthermore, even if we are successful in selling our solutions, our ability to collect outstanding receivables may be significantly impacted by liquidity issues of our resellers' customers and/or OEM partners' customers and/or our resellers/OEM partners themselves, which may negatively affect our ability to recognize future revenue based on sales. As a result, we may experience shortfalls in our future revenues.

The loss of our key employees would adversely affect our ability to manage our business, therefore causing our operating results to suffer and the value of your investment to decline

Our success depends on the skills, experience and performance of our senior management and other key personnel. The loss of the services of any of our senior management or other key personnel, including Gideon Mantel, our Chief Executive Officer and Amir Lev, our President and Chief Technical Officer, could materially and adversely affect our business. The loss of our software developers may also adversely affect our anti-spam solutions, therefore causing our operating results to suffer and the value of your investment to decline. We do not have employment agreements inclusive of set periods of employment with any of these key personnel. We cannot prevent them from leaving at any time. We do not maintain key-person life insurance policies on any of our employees.

Our low head-count of 48 employees (as of March 31, 2004) continues to strain our operational resources, and although the Company added additional sales and support personnel during 2003 and early 2004, the lack of sufficient personnel may compromise our ability to enhance revenues.

Our business and operating results could suffer if we do not successfully address the risks inherent in doing business overseas

At June 30, 2004, we have sales offices in Israel and the United States. We have

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also begun marketing of our anti-spam solutions in international markets by utilizing appropriate distributorship channels. However, we may not be able to compete effectively in international markets due to various risks inherent in conducting business internationally, such as:

- o differing technology standards;
- o inability of distribution channels to successfully market our anti-spam solutions;
- o export restrictions, including export controls relating to encryption technologies;
- o difficulties in collecting accounts receivable and longer collection periods;
- o unexpected changes in regulatory requirements;
- o political and economic instability;
- o potentially adverse tax consequences;

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- o the adoption of new legal penalties which may discourage the distribution of unsolicited email messages; and
- o potentially reduced protection for intellectual property rights.

Any of these factors could adversely affect the Company's prospective international sales and, consequently, business and operating results.

Terrorist attacks such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001 and other attacks or acts of war may adversely affect the markets on which our ordinary shares trade, our financial condition and our results of operations

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. These attacks caused major instability in the U.S. and other financial markets. There could be further acts of terrorism in the United States or elsewhere that could have a similar impact. Leaders of the U.S. government have announced their intention to actively pursue and take military and other action against those behind the September 11, 2001 attacks and to initiate broader action against national and global terrorism. In this regard, the U.S. recently led a coalition of forces in attacks on Afghanistan and Iraq. The worldwide ramifications of such attacks are unknown at this time. Armed hostilities or further acts of terrorism would cause further instability in financial markets and could directly impact our financial condition and our results of operations.

### Technology Risks

We might not have the resources or skills required to adapt to the changing technological requirements and shifting preferences of our customers and their users.

The spam and anti-spam industry is characterized by difficult technological challenges, sophisticated "spammers" and constantly evolving spam practices and targets that could render our anti-spam solutions and proprietary technology

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ineffective. Our success depends, in part, on our ability to continually enhance our existing anti-spam solutions and to develop new solutions, functions and technology that address the potential needs of prospective customers and their users. The development of proprietary technology and necessary enhancements entails significant technical and business risks and requires substantial expenditures and lead-time. We may not be able to keep pace with the latest technological developments. We may not be able to use new technologies effectively or adapt to customer or end user requirements or emerging industry standards. Also, we must be able to act more quickly than our competition, and may not be able to do so.

Our software may be adversely affected by defects, which could cause our customers or end users to stop using our solutions

Our anti-spam solutions are based in part upon new and complex software. Complex software often contains defects, particularly when first introduced or when new versions are released. Although we conduct extensive testing, we may not discover software defects that affect our new or current solutions or enhancements until after they are delivered. Although we have not experienced any material software defects to date in our anti-spam solutions offering, it is possible that, despite testing by us, defects may exist in the software we license. These defects could cause interruptions in our anti-spam solutions for customers that could damage our reputation, create legal risks, cause us to lose revenue, delay market acceptance or divert our development resources, any of which could cause our business to suffer.

### Investment Risks

We may need additional capital

We have invested heavily in technology development. We expect to continue to spend financial and other resources on developing and introducing new offerings and maintaining our corporate organizations and strategic relationships. We also expect to invest resources in research and development projects to develop enhanced anti-spam solutions for enterprises and, possibly, other target markets.

Based on the cash balance at December 31, 2003, the payment in January 2004 of approximately \$1 million on behalf of warrants exercises by previous convertible note holders, current projections of revenues, additional signed financing agreements with investors, related expenses and the ability to further curtail certain discretionary expenses, the Company believes it has sufficient cash to continue operations for at least the next twelve months.

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If we cannot satisfy Nasdaq's maintenance requirements, it may delist our ordinary shares from its Smallcap Market and we may not have an active public market for our ordinary shares. The absence of an active trading market would likely make our ordinary shares an illiquid investment.

Our ordinary shares are quoted on the Nasdaq SmallCap Market. To continue to be listed, we are required to maintain shareholders' equity of at least \$2,500,000, or market value of our outstanding shares (excluding shares held by company insiders and principal shareholders) of at least \$35,000,000, or we must have realized at least \$500,000 in net income from continuing operations in our last fiscal year or in two of our last three fiscal years. Since our share price as quoted on the Nasdaq dropped below a price that lowered our market value to below \$35,000,000 and our shareholders' equity was below \$2.5 million, we

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received a Nasdaq Staff Determination letter on May 10, 2004 indicating that Commtouch had failed to comply with the stockholders' equity, net income and market value of publicly held shares requirements for continued listing, as set forth in Nasdaq's Marketplace Rule 4320(e)(2)(B), and that its securities were therefore subject to delisting from The Nasdaq SmallCap Market (however, Commtouch's submission of an appeal automatically delayed the delisting process). The subject rule requires compliance with at least one of the above requirements in order to maintain listing with the Nasdaq.

Commtouch appealed the Nasdaq Staff Determination and a hearing was held on June 17, 2004 before a Nasdaq Listing Qualifications Panel ("Panel") to review the Staff Determination. The Panel, in its decision of June 28, 2004, determined that the company's ordinary shares will continue to be listed on The Nasdaq SmallCap Market pursuant to an exception from the requirement that the company maintain at least \$2.5 million in shareholders equity. The Panel made the continuing availability of the exception conditioned on the following specific criteria, as well as continuing satisfaction of all other listing requirements of the Small Cap Market:

- a. On or before July 15, 2004, the company must make a public filing with the Securities and Exchange Commission and Nasdaq evidencing compliance with the \$2.5 million shareholders' equity requirement.
- b. On or before July 31, 2004, October 31, 2004 and January 31, 2005, the company is required to submit to Nasdaq evidence of continued compliance with the \$2.5 million shareholders' equity requirement for the quarters ending June 30, September 30 and December 31, 2004 respectively.

The Company has closed the financing of May 18, 2004 which is described under "Private Placements of Ordinary Shares, Additional Investment Shares, Convertible Notes and Warrants" above, and this allows the Company to satisfy the above criteria in the near term. However, there can be no assurance that the Company will continue to have the ability to meet the Nasdaq's conditions to the exception and, accordingly, there can be no assurance that we will continue to comply with the Nasdaq listing requirements for listing on the Nasdaq SmallCap Market.

On May 18, 2004, the Company entered into a definitive agreement for the private placement of 5,131,583 ordinary shares of the Company at a purchase price of \$0.76 per share to mostly existing institutional investors for gross proceeds to the Company of approximately \$3.9 million.

If we will not be in compliance with any of these tests in the future, Nasdaq may delist our ordinary shares. If this occurs, trading in our shares may be conducted in the over-the-counter market in the so-called "pink sheets" or, if available, the "OTC Bulletin Board Service." As a result, an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of, our shares.

Also, Nasdaq may delist our ordinary shares if it deems it necessary to protect investors and the public interest.

If our shares are delisted, they may become subject to the SEC's "penny stock" rules and be more difficult to sell. In addition, it may cause the occurrence of an event of default according to the November Securities Purchase Agreement signed on November 26, 2003, and thus may result in the redemption of the notes by the lenders, and/or penalties to be paid in cash.

SEC rules require brokers to provide information to purchasers of securities traded at less than \$5.00 and not traded on a national securities exchange or quoted on the Nasdaq Stock Market. If our shares become "penny stock" that is

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not exempt from these SEC rules, these disclosure requirements may have the effect of reducing trading activity in our shares and making it more difficult for investors to sell. The rules require a broker-dealer to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker must also give bid and offer quotations and broker and salesperson compensation information to the customer orally or in writing before or with the confirmation. The SEC rules also require a broker to make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction before a transaction in a penny stock.

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Our directors, executive officers and principal shareholders will be able to exert significant influence over matters requiring shareholder approval and could delay or prevent a change of control.

Our directors and affiliates of our directors, our executive officers and our shareholders who currently individually beneficially own over five percent of our ordinary shares, beneficially own, in the aggregate, approximately 39.34% of our outstanding ordinary shares as of March 31, 2004 plus warrants and options exercisable within 60 days thereof. If they vote together (especially if they were to convert all beneficial holdings into shares entitled to voting rights in the Company), these shareholders will be able to exercise significant influence over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership could also delay or prevent a change in control of Commtouch. The above percentage of beneficial ownership includes warrants and options totaling 2.79% of the outstanding ordinary shares which are underwater as of March 31, 2004.

These significant shareholders will be able to significantly influence and possibly exercise control over most matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control. In addition, conflicts of interest may arise as a consequence of these significant shareholders control relationship with us, including:

- o conflicts between significant shareholders, and our other shareholders whose interests may differ with respect to, among other things, our strategic direction or significant corporate transactions;
- o conflicts related to corporate opportunities that could be pursued by us, on the one hand, or by these shareholders, on the other hand; or
- o conflicts related to existing or new contractual relationships between us, on the one hand, and these shareholders, on the other hand.

Furthermore, InfoSpace holds the right to name one director to our Board as long as it continues to hold at least 620,022 shares, including the shares issuable upon exercise of the InfoSpace warrant. It named Thomas Camp to the Board under this provision, who resigned on August 22, 2001 and was not replaced by Infospace.

Substantial sales of our ordinary shares could adversely affect our share price.

The sale, or availability for sale, of substantial quantities of our ordinary shares may have the effect of further depressing its market price. A large number of our ordinary shares which were previously subject to resale

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restrictions, are currently eligible for resale. In addition a significant number of shares are eligible for resale in the future, i.e. those shares that may be issued if the lenders in the new convertible loan transaction of November 2003 decide to exercise warrants and/or convert the Company's loan obligations to equity, as well as those shares that will be eligible for resale due to the exercise of other warrants issued during 2003. These shares will dilute existing shareholders.

### Risk of failure to honor registration rights for the 2002, 2003 and 2004 private placements

According to the agreements with the selling securityholders under Registration Statements on Forms F-3 filed with the SEC on May 15, 2002, October 20, 2003 and January 6, 2004, should the Company fail to maintain the effectiveness of those Registration Statements for the periods stated in the respective agreements, the Company risks having imposed on it liquidated damages as defined in those agreements. For details about the penalties for the 2002 private placement, refer to Exhibit 2.8 of the Report on Form 20F filed on April 26, 2002. For details about the penalties for the July 2003 private placements, refer to the Report on Form 6K for the month of July, filed on July 28, 2003, and for the month of August filed on August 15, 2003. For details about the penalties for the November 2003 private placement, refer to Form 6K for the month of November, filed December 2, 2003. For details about the penalties for the May 2004 private placement, refer to Form 6K for the month of May, filed May 19, 2004.

### Risk of occurrence of event of default under Securities Purchase Agreement

The Company is required to abide by the terms and provisions of the Securities Purchase Agreement of November 2003. Upon failure to do so, for example, failure to pay principal or interest, we would be in default of the agreement. For details about the events of default, refer to the Report on Form 6K for the month of December, filed on December 2, 2003.

The lenders were granted security interests in all of the Company's assets. If an event of default were not cured by the Company, the loan would accelerate and all amounts due under the loan would immediately become due and payable. If the Company were unable to repay the loan amounts, the lenders, among other things, would have the right to foreclose on their security interests in the Company's assets by seizing and selling all the Company's assets.

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### Intellectual Property Risks

If we fail to adequately protect our intellectual property rights or face a claim of intellectual property infringement by a third party, we could lose our intellectual property rights or be liable for significant damages.

We regard our patent pending technology, copyrights, service marks, trademarks, trade secrets and similar intellectual property as critical to our success, and rely on patent, trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees and customers to protect our proprietary rights. Third parties may infringe or misappropriate our patent pending technology, trade secrets, copyrights, trademarks and similar proprietary rights. We have recently converted two provisional patent applications into a formal patent application, and we expect to file at least one additional provisional patent application covering certain aspects of our anti-spam technology. We may seek to patent certain additional software or other technology in the future. Any such patent applications might not result in patents issued within the scope of the claims we seek, or at all. We cannot be



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certain that our software does not infringe issued patents that may relate to our anti-spam solutions. In addition, because patent applications in the United States are not publicly disclosed until the patent is issued, applications previously may have been filed which relate to our anti-spam solutions.

Other parties may assert infringement claims against us. We may also be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by ourselves and our licensees. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Despite our precautions, unauthorized third parties may copy certain portions of our technology or reverse engineer or obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. Our means of protecting our proprietary rights in the United States or abroad may not be adequate and competitors may independently develop similar technology.

We also continue to hold a perpetual mail server license which was previously utilized in our hosted email service offering, and may license other technology as the need arises. We cannot be certain that, apart from the mail server license, other third-party content licenses will be available to us on commercially reasonable terms or that we will be able to successfully integrate the technology into our products. These third-party licenses may expose us to increased risks, including risks associated with the assimilation of new technology, the diversion of resources from the development of our own proprietary technology, and our inability to generate revenues from new technology sufficient to offset associated acquisition and maintenance costs. The inability to obtain any of these licenses could result in delays in product development until equivalent technology can be identified, licensed and integrated. Any such delays could cause our business/financial condition and operating results to suffer.

Governmental regulation and legal uncertainties could impair the growth of the Internet, decrease the distribution of unsolicited bulk (spam) email and decrease demand for our anti-spam solutions or increase our cost of doing business.

While laws aimed at curtailing the spread of spam have been adopted by the U.S. federal government and some states (see above Risk Factors - Business Risks), enforcement has not been widespread and generally there has been a continuing trend of increasing spam traffic. The growth and development of the spam market may prompt calls for more stringent Internet user protection laws that may limit the ability of companies promoting or delivering spam online. Moreover, the applicability to the Internet of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy is uncertain and may take years to resolve. The adoption of additional laws or regulations, or the application of existing laws or regulations to the Internet, may impair the growth of the Internet or commercial online services. All or some of the above laws could decrease the demand for our anti-spam solutions and increase our cost of doing business, or otherwise harm our business and operating results.

### Risks Relating to Operations in Israel

We have important facilities and resources located in Israel, which has historically experienced severe economic instability and military and political unrest.

We are incorporated under the laws of the State of Israel. Our principal

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research and development facilities are located in Israel. Although the substantial majority of our past sales were made to customers outside Israel, we are nonetheless directly influenced by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel, or the interruption or curtailment of trade between Israel and its present trading partners, could significantly harm our business, operating results and financial condition.

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980's, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. In addition, Israel and some companies doing business with Israel have been the subject of an economic boycott by Arab countries since Israel's

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establishment. These restrictive laws and policies may have an adverse impact on our operating results, financial condition or expansion of our business.

Since the establishment of the State of Israel in 1948, a state of hostility has existed between Israel and most of the Arab countries in the region. Peace talks between Israel and the Palestinian Authority began in the early 1990s, but they broke down in mid-2000. Attacks on Israel by Palestinian terrorists, and military responses by Israel, have accelerated considerably since late 2000. We cannot predict whether or when a peace process will resume, whether a full resolution of these problems will be achieved, the nature of any such resolution or any consequences that any of these factors may have on us. Any future armed conflicts or political instability in the region could negatively affect our business or harm our results of operations.

Our results of operations may be negatively affected by the obligation of key personnel to perform military service.

Certain of our officers and employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time. Although Commtouch has operated effectively under these requirements since its inception, we cannot predict the effect of these obligations on Commtouch in the future. Our operations could be disrupted by the absence, for a significant period, of one or more of our officers or key employees due to military service.

Because a substantial portion of our revenues historically have been generated in U.S. dollars and a portion of our expenses have been incurred in New Israeli Shekels, our results of operations may be adversely affected by inflation and currency fluctuations.

We have generated a substantial portion of our revenues in U.S. dollars and incurred a portion of our expenses, principally salaries and related personnel expenses in Israel, in New Israeli Shekels, commonly referred to as NIS. As a result, we have been exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the dollar or that the timing of any devaluation may lag behind inflation in Israel. In 2002 and for a number of years prior to 1999, the rate of devaluation of the NIS against the dollar exceeded the rate of inflation. This trend was reversed in 2003. We cannot predict the trend for future years. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected. Our operations also could be adversely affected if we are unable to guard against currency fluctuations in the future. Accordingly, we 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. These measures, however, may not adequately protect us from material adverse effects

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due to the impact of inflation in Israel.

The government programs and benefits which we currently receive require us to meet several conditions and may be terminated or reduced in the future.

Prior to 1998, we received grants from the Government of Israel, through the Office of the Chief Scientist (OCS), for the financing of a significant portion of our research and development expenditures in Israel. In 2001 and 2002, we applied for additional grants and we may apply for additional grants in the future. In 1999 and 2000, we did not receive any grants from the OCS. In 2001 we received \$0.6 million and in 2002 we received \$0.2 million. While we submitted an application for an additional grant in 2003, we decided not to draw any funds thereunder during 2003. The OCS budget has been subject to reductions which may affect the availability of funds for this prospective grant and other grants in the future. Therefore, we cannot be certain that we will continue to receive grants at the same rate, or at all. In addition, the terms of any future OCS grants may be less favorable than our past grants.

In connection with research and development grants received from the OCS, we must pay royalties to the OCS on the revenue derived from the sale of products, technologies and services developed with grants from the OCS. We account for these royalties by recording an accrual in our financial statements. Because we determined that no revenue is expected from some of these projects, as of December 31, 2001 we decided to write down the related \$0.4 million accrual we recorded in past years. The OCS subsequently confirmed the status of these projects as being non-royalty-bearing. The OCS would be entitled to revisit the status of these projects in the future if the Company were to commence utilizing technology developed under these projects.

The terms of the OCS grants and the law pursuant to which the grants are made restrict our ability to manufacture products or transfer technologies developed using OCS grants outside of Israel. This restriction may limit our ability to enter into agreements for those products or technologies, without OCS approval. We cannot be certain that the approvals of the OCS will be obtained on terms that are acceptable to us, or at all. In connection with our grant applications, we have made representations and covenants to the OCS. The funding from the OCS is subject to the accuracy of these representations and covenants and to our compliance with the conditions and restrictions imposed by the OCS. If we fail to comply with any of these conditions or restrictions, we could be required to repay any grants previously received, together with linkage adjustment to the Israeli consumer price index and interest, and would likely be ineligible to receive OCS grants in the future.

Grants received from the OCS through 2002 that the Company potentially will be obligated to repay totaled approximately \$800,000.

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The tax benefits we are currently entitled to from the Government of Israel may be reduced or terminated in the future.

Pursuant to the Law for the Encouragement of Capital Investments, the Government of Israel through the Investment Center has granted "approved enterprise" status to a portion of our capital investment programs. The portion of our income derived from our approved enterprise program will be exempt from tax for a limited period of two years commencing in the first year in which we have taxable income, and will be subject to a reduced tax for an additional period of five to eight years dependent on the percentage of holdings of our shares by foreign shareholders. The benefits available to an approved enterprise are conditioned upon the fulfillment of specified conditions, including a required amount of investments in fixed assets and a portion of these investments being made with net proceeds of equity capital raised by us as stipulated in

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applicable law and in the specific certificates of approval. If we fail to comply with these conditions, in whole or in part, we may be required to pay additional taxes (together with linkage adjustment to the Israeli consumer price index and interest) for the period in which we benefited from the tax exemption or reduced tax rates and would likely be denied these benefits in the future. In addition, the law and regulations prescribing the benefits provide for an expiration date for the grant of new benefits. The expiration date has been extended several times in the past. The expiration date currently in effect is June 30, 2004 (which may be extended by ministerial decision until December 31, 2004), and no new benefits will be granted after that date unless the expiration date is extended. We cannot assure you that new benefits will be available after June 30, 2004 or that benefits will be continued in the future at their current levels or at all.

Israeli courts might not enforce judgments rendered outside of Israel and it might therefore be difficult for an investor to recover any judgment against any of our officers or directors resident in Israel.

We are organized under the laws of Israel, and we maintain significant operations in Israel. Certain of our officers and directors named in this report reside outside of the United States. Therefore, you might not be able to enforce any judgment obtained in the U.S. against us or any of such persons. You might not be able to bring civil actions under U.S. securities laws if you file a lawsuit in Israel. However, we have been advised by our Israeli counsel that, subject to several limitations, Israeli courts may enforce a final judgment of a U.S. court for liquidated amounts in civil matters after a hearing in Israel. We have appointed Commtouch Inc., our U.S. subsidiary, as our agent to receive service of process in any action against us arising from this report. We have not given our consent for our agent to accept service of process in connection with any other claim and it may therefore be difficult for an investor to effect service of process against us or any of our non-U.S. officers, directors and experts relating to any other claims. If a foreign judgment is enforced by an Israeli court, it may be payable in Israeli currency.

Provisions of Israeli law may delay, prevent or make difficult an acquisition of Commtouch, which could prevent a change of control and therefore depress the price of our shares.

Israeli corporate law regulates mergers, votes required to approve mergers and acquisitions of shares through tender offers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israel tax considerations may make potential transactions unappealing to us or to some of our shareholders and tax reform in Israel can reduce potential tax benefits, and limit our potential profitability.

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

### CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the capitalization and indebtedness of Commtouch as of March 31, 2004, actual and as adjusted for the May 18, 2004 financing:

Long-term liabilities

Shareholders' equity:

Ordinary shares, NIS 0.05 par value; 150,000,000 (adjusted from 75,000,000) shares authorized, with 37,319,562 and 42,451,145 actual and as adjusted shares issued and outstanding, respectively

Additional paid-in capital

Accumulated other comprehensive income

Notes receivable from shareholders

Accumulated deficit

Total shareholders' equity

Total capitalization and indebtedness

The as adjusted numbers reflect a private placement of 5,131,583 ordinary shares of the Company for an aggregate amount of \$3.9 million and the reduction of the conversion and exercise prices of the November Notes and November Warrants issued to the investors within the frameworks of the November Securities Purchase Agreement previously set at \$1.153, to \$0.83.

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THE OFFER AND LISTING

The Offering

Ordinary shares offered by selling securityholders.....	27,526,358 shares, NIS 0.05 par value
Price.....	As determined by each selling securityholder
Ordinary shares outstanding after the offering.....	64,889,382 shares (assuming ordinary shares outstanding at the offering on May 31, 2004 of 37,363,382 shares)
Use of proceeds.....	Commtouch will not receive any of the proceeds of the offering of shares by the selling securityholders
NASDAQ SmallCap Market Symbol .....	CTCHC

Shares will be offered on a registered basis and not as bearer shares.

Market Information

The Company's Ordinary Shares traded publicly on The Nasdaq Stock Market under the symbol "CTCH" from July 13, 1999 (up to June 7, 2002 on the National Market, and subsequently on the SmallCap Market) through June 29, 2004, and under the symbol "CTCHC" as from June 30, 2004.

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

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	High -----	Low -----
1999 (beginning July 13, 1999): .....	\$49.12	\$11.0625
2000: .....	\$66.50	\$ 7.44
2001: .....	\$ 3.81	\$ 0.20
2002: .....	\$ 0.42	\$ 0.06
2003: .....	\$ 1.47	\$ 0.10
2002:		
First Quarter .....	\$ 0.42	\$ 0.23
Second Quarter .....	\$ 0.25	\$ 0.11
Third Quarter .....	\$ 0.15	\$ 0.08
Fourth Quarter .....	\$ 0.22	\$ 0.06
2003:		
First Quarter .....	\$ 0.16	\$ 0.10
Second Quarter .....	\$ 0.69	\$ 0.16
Third Quarter .....	\$ 0.96	\$ 0.55
Fourth Quarter .....	\$ 1.47	\$ 0.79
2004:		
First Quarter .....	\$ 1.24	\$ 0.83
Most Recent Six Months:		
December 2003 .....	\$ 1.15	\$ 0.79
January 2004 .....	1.24	0.84
February 2004 .....	1.15	0.91
March 2004 .....	1.06	0.83
April 2004 .....	1.09	0.85
May 2004 .....	0.92	0.57

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REASONS FOR THE OFFER AND USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares by the selling securityholders in this offering. However, we will receive the exercise price if the selling securityholders exercise their warrants and/or additional purchase rights. We cannot be certain as to when and if all of these warrants and/or additional purchase rights will be exercised and as to the amount of the proceeds we will actually receive from exercises. All proceeds from the sale of the shares will be for the account of the selling securityholders, as described below. See "Selling Securityholders" and "Plan of Distribution."

SELLING SECURITYHOLDERS

The ordinary shares being offered by the selling securityholders were issued pursuant to (i) a Securities Purchase Agreement, dated as of May 18, 2004, (ii) are issuable upon exercise of additional investment rights and warrants, which were also issued pursuant to the Securities Purchase Agreement, and (iii) are issuable upon conversion of the convertible notes and upon exercise of warrants under the Securities Purchase Agreement of November 26, 2003. For additional information regarding the convertible notes and warrants, see "Private

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Placements of Ordinary Shares, Additional Investment Shares, Convertible Notes and Warrants" above. We are registering the ordinary shares in order to permit the selling securityholders to offer the shares for resale from time to time. Except for the ownership of certain convertible notes and warrants issued pursuant to the transaction of November 2003 and the Ordinary Shares, Additional Investment Rights and Warrants issued pursuant to the Securities Purchase Agreement of May 18, 2003, and apart from Israel Seed IV, L.P. (which invested in the Company in a private placement in late July 2003), the selling securityholders have not had any material relationship with us within the past three years.

The following table presents information provided by the selling securityholders with respect to beneficial ownership of our ordinary shares as of May 31, 2004, and as adjusted to reflect the sale of the shares offered by this prospectus, by the selling securityholders and assumes that all shares being offered by this prospectus are ultimately sold in the offering. The second column lists the number of ordinary shares beneficially owned by each selling shareholder, based on its ownership of the convertible notes, ordinary shares, additional investment rights and the warrants, as of June 29, 2004, assuming conversion of all convertible notes and exercise of the additional investment rights and warrants held by the selling securityholders on that date, without regard to any limitations on conversions or exercise.

The fourth column lists the ordinary shares being offered by this prospectus by the selling securityholders.

The table includes all shares issuable within 60 days of June 29, 2004 upon the exercise of warrants and other rights beneficially owned by the indicated shareholders on that date. Beneficial ownership as set forth below includes the power to direct the voting or the disposition of the securities or to receive the economic benefit of ownership of the securities. To our knowledge, the persons named in the table have sole voting, sole investment control and sole right to receive the economic benefit with respect to all shares listed. The applicable percentage of ownership for each shareholder is based on 37,363,024 ordinary shares outstanding as of May 31, 2004 and 64,889,382 ordinary shares outstanding immediately following the completion of this offering, together with applicable warrants for that shareholder that are exercisable within 60 days of May 31, 2004.

In accordance with the terms of registration rights agreements with the selling securityholders, this prospectus generally covers the resale of at least the sum of (i) the number of ordinary shares issued to the selling securityholders in the private placement of May 18, 2004, (ii) 130% of the number of ordinary shares issuable upon exercise of the warrants under such transaction, (iii) the number of ordinary shares issuable upon exercise of the additional investment rights under such transaction and (iv) 130% of that number of ordinary shares equal to the number of ordinary shares issuable upon conversion of the convertible notes and upon exercise of the related warrants under the November 26, 2003 transaction, determined as if the outstanding additional investment rights, warrants and convertible notes were exercised in full, in each case, as of the trading day immediately preceding the date this registration statement was initially filed with the SEC. Because the exercise price of the additional investment rights and warrants and conversion price of the convertible notes may be adjusted, the number of shares that will actually be issued may be more or less than the number of shares being offered by this prospectus. The fifth column assumes the sale of all of the shares offered by the selling securityholders pursuant to this prospectus.

Under the terms of the additional investment rights, warrants and convertible notes, a selling shareholder may not exercise the additional investment rights or warrants or convert the convertible notes, to the extent such exercise or conversion would cause such selling shareholder, together with its affiliates,

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to beneficially own a number of ordinary shares which would exceed 4.99% of our then outstanding ordinary shares following such exercise, excluding for purposes of such determination ordinary shares issuable upon conversion of the convertible notes which have not been converted and upon exercise of the

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additional investment rights and warrants which have not been exercised. The number of shares in the second column does not reflect this limitation. The selling securityholders may sell all, some or none of their shares in this offering. See "Plan of Distribution."

Name of Beneficial Owner -----	Shares Beneficially Owned Prior to Offering		Shares to be Offered	
	Number -----	Percent of Outstanding Shares -----	Number -----	Percent Outstand Shares -----
Israel Seed IV, L.P.(1) c/o Maples and Calder, P.O. Box 309 G.T., Ugland House, South Church Street Grand Cayman, Cayman Island	10,958,298	22.68	8,278,513	18.14
Smithfield Fiduciary LLC(2) c/o Highbridge Capital Management, LLC 9 West 57th Street, 27th Floor New York, New York 10019	5,076,760	11.96	5,076,760	11.96
Omicron Master Trust (3) c/o Omicron Capital 810 Seventh Avenue 39th Floor New York, New York 10019	4,587,724	10.94	4,587,724	10.94
Cranshire Capital L.P. (4) c/o Downsview Capital, Inc. The General Partner 666 Dundee Road, Suite 1901 Northbrook, IL 60062	4,995,636	11.79	4,995,636	11.79
Vertical Ventures, LLC (5) 900 Third Avenue, 26th Floor New York, New York 10022	3,719,304	9.05	3,719,304	9.05
Iroquois Capital LP (6) c/oVertical Ventures, LLC 900 Third Avenue, 26th Floor New York, New York 10022	868,421	2.27	868,421	2.27
TOTALS	30,206,143	44.70	27,526,358	42.42

(1) Israel Seed IV L.P. ("ISLP IV") is organized as a "blind pool" partnership in which the limited partners have no discretion over investment or



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sale decisions, are not able to withdraw from ISLP IV except under exceptional circumstances, and generally participate ratably in each investment made by ISLP IV. The sole General Partner of ISLP IV is Israel Venture Partners 2000 Ltd. ("IVP") which has sole investment control with respect to ISLP IV. The sole principals of the investment advisors to IVP are Jonathan Medved, Neil Cohen and Michael Eisenberg and, as such, they may be deemed to share voting control over the shares of the Company held by the ISLP IV. No other persons have investment

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control over IVP or ISLP IV. IVP and Jonathan Medved, Neil Cohen and Michael Eisenberg disclaim beneficial ownership of any shares held by ISLP IV except to the extent of their respective pecuniary interests.

(2) Highbridge Capital Management, LLC ("Highbridge"), is the trading manager of Smithfield Fiduciary LLC ("Smithfield") and consequently has voting control and investment discretion over the ordinary shares held by Smithfield. Glenn Dubin and Henry Swieca control Highbridge. Each of Highbridge and Messrs. Dubin and Swieca disclaims beneficial ownership of the shares held by Smithfield.

(3) 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 the shares of our common stock owned by Omicron, and Winchester may be deemed to share voting and dispositive power over the shares of our common stock owned by Omicron. Omicron Capital, OCI and Winchester disclaim beneficial ownership of such shares of our common stock. Omicron Capital has delegated authority from the board of directors of Winchester regarding the portfolio management decisions with respect to the shares of common stock owned by Omicron and, as of April 21, 2003, 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 the shares of common stock owned by Omicron. By reason of such delegated authority, Messrs. Morali and Bernstein may be deemed to share dispositive power over the shares of our common stock owned by Omicron. Messrs. Morali and Bernstein disclaim beneficial ownership of such shares of our common stock 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 the shares of our common stock 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.

(4) Mitchell P. Kopin is the president of Downsvie Capital, Inc., the general partner of Cranshire Capital, L.P., and has sole voting control and investment discretion over securities held by Cranshire Capital, L.P.

(5) Joshua Silverman, a partner of Vertical Ventures, LLC has voting control and investment discretion over securities held by Vertical Ventures, LLC. Mr. Silverman disclaims beneficial ownership of the shares held by Vertical Ventures, LLC.

(6) Joshua Silverman has voting control and investment discretion over

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securities held by Iroquois Capital, LP. Mr. Silverman disclaims beneficial ownership of the shares held over by Iroquois Capital, LP.

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### SHARES ELIGIBLE FOR FUTURE SALE

#### Freely Tradable Shares--Registered Shares

Future sales of substantial amounts of our ordinary shares in the public market, or the possibility of these sales occurring, could adversely affect prevailing market prices for our ordinary shares or our future ability to raise capital through an offering of equity securities.

As of May 31, 2004 we had 37,363,024 ordinary shares outstanding. The 3,450,000 ordinary shares sold in our initial public offering in July 1999; the 1,344,086 ordinary shares and the 1,136,000 shares underlying a warrant held by InfoSpace and Vulcan Ventures registered in 2000 in a secondary offering along with the 707,965 ordinary shares we issued to Microsoft Corporation; the 315,789 shares we issued to Rideau Ltd., a private investor, on June 30, 2001; the 1,406,612 shares registered in August 2001 in a secondary offering for shareholders of Wingra, a former subsidiary of the Company; the 7,095,886 shares registered in May 2002 for certain selling securityholders under a private placement, as identified in the Form F-3 relating thereto; the 8,793,564 shares registered on November 3, 2003 for certain selling securityholders under the two July 2003 private placements, as identified in the Form F-3 relating thereto; the 11,345,358 and 4,162,479 shares registered in January 2004 under the two Forms F-3 relating to the convertible loan transactions of January 29, 2003 and November 26, 2003, respectively, are all freely tradable in the public market without restriction under the Securities Act, unless the shares are held by "affiliates" of the Company, as that term is defined in Rule 144 under the Securities Act. In addition, the 23,363,879 shares under this prospectus, relating to shares issued or issuable under the Securities Purchase Agreements of May 18, 2004 and November 26, 2003, will also be freely tradable without restriction, unless otherwise indicated in the related prospectus supplement.

We have 3,684,211 shares remaining under a shelf Registration Statement on file with the SEC. All of the shares thereunder will be freely tradeable when, as and if issued.

#### Freely Tradable Shares--Shares Under Employee Benefit Plans

On January 20, 2000, we filed a Form S-8 Registration Statement under the Securities Act to register 5,250,000 ordinary shares issuable in connection with option exercises and shares reserved for issuance under all stock plans and agreements as well as 150,000 ordinary shares under the Company's Employee Stock Purchase Plan which the Company may issue to employees from time to time. On July 20, 2001, the Company filed another Form S-8 Registration Statement to register: an additional 250,000 of our ordinary shares approved by our shareholders on August 10, 2000 for issuance under the Company's director stock option plan; an additional 79,156 shares issuable under our Employee Stock Purchase Plan; and 162,257 shares underlying options issuable to employees of Wingra pursuant to the terms of the Wingra merger agreement and the Wingra Technologies, LLC 1998 Unit Option Plan. The Employee Stock Purchase Plan was since terminated in late 2001.

The Company issues employee and director stock options from time to time. Such options are subject to vesting periods after which the shares may be resold by the holders, subject to Rule 144 limitations if the holder is an affiliate. Of

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13,935,644 options issued in the past, as of May 31, 2004 there are 6,130,077 options outstanding, with 4,825,881 option shares being vested and unexercised and 1,976,456 options having been exercised. Of these options, 799,501 options priced at \$0.0125 remain outstanding and exercisable, with 722,309 being fully vested.

### Warrants and Conversion Rights

Please see Form 20-F for 2003 filed by the Company for detail relating to outstanding warrants and conversion rights granted in the past by the Company.

### Restricted Shares--Rule 144

The remaining ordinary shares outstanding, if any, upon completion of this offering will be "restricted securities" as that term is defined under Rule 144. We issued and sold these restricted securities in private transactions in reliance on exemptions from registration under the Securities Act. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act, as summarized below. We believe that the majority of these shares may fulfill the requirements of Rule 144(k).

Most of the restricted shares are subject to certain volume and other resale restrictions pursuant to Rule 144 because the holders are affiliates of Commtouch. In general, under Rule 144, an affiliate of Commtouch, or a person (including a group of related persons whose shares must be aggregated under the Rule) who has beneficially owned restricted shares for at least one year, will

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be entitled to sell in any three-month period a number of shares that does not exceed the greater of

- o 1% of the then outstanding ordinary shares (approximately 648,894 shares immediately following completion of the offering), or
- o the average weekly trading volume during the four calendar weeks preceding the date on which notice of the sale is filed with the Commission.

Sales pursuant to Rule 144 are subject to certain requirements relating to manner of sale, notice and availability of current public information about Commtouch. A person who was not an affiliate of Commtouch for 90 days before the sale and who has beneficially owned the shares for at least two years may sell under Rule 144(k) without regard to the above limitations.

### Additional Restrictions

In addition to the restrictions imposed by the securities laws, 670,180 restricted shares were issued to certain Commtouch employees under agreements which give Commtouch Inc. a repurchase option on any unvested shares. Most of these shares have either fully vested or have been retired by the Company. In any case, due to restrictions under Israeli law, the repurchase of these shares is unlikely.

PLAN OF DISTRIBUTION

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We are registering the ordinary shares issued and issuable upon exercise of the additional investment rights and warrants and conversion of the convertible notes, in order to permit the resale of these ordinary shares by the holders of the ordinary shares, additional investment rights, convertible notes and the warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling securityholders of the ordinary shares. We will bear all fees and expenses incident to our obligation to register the ordinary shares.

The selling securityholders may sell all or a portion of the ordinary shares beneficially owned by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the ordinary shares are sold through underwriters or broker-dealers, the selling securityholders will be responsible for underwriting discounts or commissions or agent's commissions. The ordinary shares may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions,

- o on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
  - o in the over-the-counter market;
  - o in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
  - o through the writing of options, whether such options are listed on an options exchange or otherwise;
  - o ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
  - o 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;
  - o purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
  - o an exchange distribution in accordance with the rules of the applicable exchange;
  - o privately negotiated transactions;
  - o short sales;
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- o broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;
  - o a combination of any such methods of sale; and
  - o any other method permitted pursuant to applicable law.

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

If the selling securityholders effect such transactions by selling ordinary

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shares to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling securityholders or commissions from purchasers of the ordinary shares for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the ordinary shares or otherwise, the selling securityholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the ordinary shares in the course of hedging in positions they assume. The selling securityholders may also sell ordinary shares short and deliver ordinary shares covered by this prospectus to close out short positions. The selling securityholders may also loan or pledge ordinary shares to broker-dealers that in turn may sell such shares.

The selling securityholders may pledge or grant a security interest in some or all of the additional investment rights, convertible notes, warrants or 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 pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, amending, if necessary, the list of selling securityholders to include the pledgee, transferee or other successors in interest as selling securityholders under this prospectus. The selling securityholders also may transfer and donate the ordinary shares in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling securityholders and any broker-dealer participating in the distribution of the ordinary shares may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the ordinary shares is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of ordinary shares being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling securityholders and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers.

Under the securities laws of some states, the ordinary shares may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the ordinary shares may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling shareholder will sell any or all of the ordinary shares registered pursuant to the shelf registration statement, of which this prospectus forms a part.

The selling securityholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the ordinary shares by the selling securityholders and any other participating person. Regulation M may also

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restrict the ability of any person engaged in the distribution of the ordinary shares to engage in market-making activities with respect to the ordinary shares. All of the foregoing may affect the marketability of the ordinary shares and the ability of any person or entity to engage in market-making activities with respect to the ordinary shares.

We will pay all expenses of the registration of the ordinary shares pursuant to the registration rights agreement, as detailed below, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, that a selling shareholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling securityholders against liabilities, including some liabilities under the Securities Act, in accordance with the registration rights agreements, or the selling securityholders will be entitled to contribution. We may be indemnified by the selling securityholders against civil liabilities, including liabilities under the Securities Act, that may arise from any written information furnished to us by the selling shareholder specifically for use in this prospectus, in accordance with the related registration rights agreements, or we may be entitled to contribution.

Once sold under the shelf registration statement, of which this prospectus forms a part, the ordinary shares will be freely tradable in the hands of persons other than our affiliates.

### Expenses Associated with Registration

We are paying substantially all of the expenses of registering the ordinary shares under the Securities Act and of compliance with blue sky laws, including registration and filing fees, printing and duplication expenses, administrative expenses, our legal and accounting fees and the legal fees of counsel on behalf of the selling securityholders. We estimate these expenses to be approximately \$219,363, which include the following categories of expenses:

SEC registration fee.....	\$1,747*
Printing and engraving expenses.....	0
Legal fees and expenses .....	15,000
Accounting fees and expenses.....	7,000
Transfer agent and registrar fees and expenses.....	194,616
Miscellaneous expenses.....	1,000
	-----
Total.....	\$219,363
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\* This fee is being offset against the filing fee previously paid for Registration No. 333-31836, which was withdrawn prior to effectiveness.

### LEGAL MATTERS

The validity of the ordinary shares offered hereby is being passed upon for Commtouch by Naschitz, Brandes & Co., Tel-Aviv, Israel. The partners of Naschitz, Brandes & Co. and the firm itself, beneficially owns, in the aggregate, 15,000 outstanding shares of the Company, including upon exercise of options, warrants or other derivative securities.

### EXPERTS

The Consolidated Financial statements of Commtouch Software Ltd. appearing in Commtouch Software Ltd's Annual Report (Form 20-F) for the year ended December 31, 2003, have been audited by Kost, Forer, Gabbay & Kasierer of 3 Aminadav St.,

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Tel-Aviv 61575, Israel, a member of Ernst & Young Global, independent auditors, as set forth in their report thereon included therein. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

### WHERE YOU CAN FIND MORE INFORMATION

We have filed a Registration Statement on Form F-3 with the SEC for the shares we are offering by this prospectus. This prospectus does not include all of the information contained in the Registration Statement. You should refer to the Registration Statement and its exhibits for additional information. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits attached to the Registration Statement for copies of the actual contract, agreement or other document.

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We are required to file annual and special reports and other information with the SEC. You can read our SEC filings, including the Registration Statement, over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file with the SEC at its public reference facilities at 450 Fifth Street, NW, Washington, DC 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, NW, Room 1024, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

We are subject to certain of the informational requirements of the Exchange Act. As a "foreign private issuer," we are exempt from the rules under the Exchange Act prescribing certain disclosure and procedural requirements for proxy solicitations and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchases and sales of ordinary shares. In addition, we are not required to file quarterly reports or to file annual and current reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to file with the Securities and Exchange Commission, within 180 days after the end of each fiscal year, an annual report on Form 20-F containing financial statements that will be examined and reported on, with an opinion expressed by an independent accounting firm, as well as quarterly reports on Form 6-K containing unaudited financial information, within 60 days after the end of each calendar quarter.

### INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to "incorporate by reference" information into this prospectus. This means that we can disclose important information to you by referring you to another document filed by us with the SEC. Information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by this prospectus or by information we file with the SEC in the future.

The following documents are incorporated by reference:

- (a) Our Annual Report on Form 20-F for the fiscal year ended December 31, 2003;

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(b) The description of our ordinary shares contained in the Registration Statement under the Exchange Act on Form 8-A as filed with the Commission on June 25, 1999, and any subsequent amendment or report filed for the purpose of updating this description; and

(c) Our first quarter 2004 financial results included on Form 6-K filed by the Company with the SEC on June 29, 2004.

In addition, all subsequent annual reports filed on Form 20-F prior to the termination of this offering are incorporated by reference into this prospectus. Also, we may incorporate by reference our future reports on Form 6-K by stating in those Forms that they are being incorporated by reference into this prospectus.

We will provide without charge to any person (including any beneficial owner) to whom this prospectus has been delivered, upon oral or written request, a copy of any document incorporated by reference in this prospectus but not delivered with the prospectus (except for exhibits to those documents unless a document states that one of its exhibits is incorporated into the document itself). Such requests should be directed to Devyani Patel, Vice President, Finance, c/o Commtouch Inc., 1300 Crittenden Lane, Suite 103, Mountain View, California 94043. Our corporate website address is <http://www.commtouch.com>. The information on our website is not intended to be a part of this prospectus.

### ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated in Israel, and many of our directors and many of the executive officers and the Israeli experts named herein are not residents of the United States and substantially all of their assets and our assets are located outside the United States. Service of process upon our non-U.S. resident directors and executive officers or the Israeli experts named herein and enforcement of judgments obtained in the United States against us, and our directors and executive officers, or the Israeli experts named herein, may be difficult to obtain within the United States. Commtouch Inc. is the U.S. agent authorized to receive service of process in any action against us arising out of this offering or any related purchase or sale of securities. We have not given consent for this agent to accept service of process in connection with any other claim.

We have been informed by our legal counsel in Israel, Naschitz, Brandes & Co., that there is doubt as to the enforceability of civil liabilities under the Securities Act or the Exchange Act in original actions instituted in Israel. However, subject to certain time limitations, an Israeli court may declare a foreign civil judgment enforceable if it finds that:

- \* the judgment was rendered by a court which was, according to the laws of the state of the court, competent to render the judgment,
- \* the judgment is no longer appealable,

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- \* the obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy, and
- \* the judgment is executory in the state in which it was given.

Even if the above conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if



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its enforcement is likely to prejudice the sovereignty or security of the State of Israel. An Israeli court also will not declare a foreign judgment enforceable if (i) the judgment was obtained by fraud, (ii) there was no due process, (iii) the judgment was rendered by a court not competent to render it according to the laws of private international law in Israel, (iv) the judgment is at variance with another judgment that was given in the same matter between the same parties and which is still valid, or (v) at the time the action was brought in the foreign court a suit in the same matter and between the same parties was pending before a court or tribunal in Israel. Judgments rendered or enforced by Israeli courts will generally be payable in Israeli currency. Judgment debtors bear the risk associated with converting their awards into foreign currency, including the risk of unfavorable exchange rates.

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27,526,358 Ordinary Shares

COMMTOUCH SOFTWARE LTD.

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PROSPECTUS  
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\_\_\_\_\_, 2004

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 8. Indemnification of Directors and Officers.

Israeli law permits a company to insure an Office Holder in respect of liabilities incurred by him or her as a result of the breach of his or her duty of care to the company or to another person, or as a result of the breach of his or her fiduciary duty to the company, to the extent that he or she acted in good

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faith and had reasonable cause to believe that the act would not prejudice the company. A company can also insure an Office Holder for monetary liabilities as a result of an act or omission that he or she committed in connection with his or her serving as an Office Holder. Moreover, a company can indemnify an Office Holder for any of the following obligations or expenses incurred as a result of an act or omission of such persons in their capacity as Office Holders: (a) monetary liability imposed upon him or her in favor of other persons pursuant to a court judgment, including a settlement or an arbitrator's decision confirmed by a court and (b) reasonable litigation expenses, including attorneys' fees, actually incurred by him or her or imposed upon him or her by a court, in an action, suit or proceeding brought against him or her by or on behalf of the company or other persons, in connection with a criminal action in which he or she was acquitted or in connection with a criminal action which does not require criminal intent in which he or she was convicted.

Our Articles of Association allow us to insure and indemnify Office Holders to the fullest extent permitted by law provided such insurance or indemnification is approved in accordance with Israel's Companies Law. The Company has acquired directors' and officers' liability insurance covering the officers and directors of the Company and its subsidiaries for certain claims. In addition, the Company has entered into an undertaking to indemnify the directors of the Company subject to certain limitations, as well as Indemnification and Exculpation Agreements, and these undertakings and agreements have been ratified by our shareholders.

Certain members of our management team are officers of our subsidiary, Commtouch Inc., a California Corporation, or reside in California. The Articles of Incorporation of Commtouch Inc. provide that the liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California law and that the corporation is authorized to provide for the indemnification of agents of the corporation, as defined in Section 317 of the California General Corporation Law, in excess of that expressly permitted by Section 317 for breach of duty to the corporation and its shareholders to the fullest extent permissible under California law.

With respect to all proceedings other than shareholder derivative actions, Section 317 permits a California corporation to indemnify any of its directors, officers or other agents only if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. In the case of derivative actions, a California corporation may indemnify any of its directors, officers or agents only if such person acted in good faith and in a manner such person believed to be in the best interests of the corporation and its shareholders. Furthermore, in derivative actions, no indemnification is permitted (i) with respect to any matter with respect to which the person to be indemnified has been held liable to the corporation, unless such indemnification is approved by the court; (ii) of amounts paid in settling or otherwise disposing of a pending action without court approval; or (iii) of expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval. To the extent that a director, officer or agent of a corporation has been successful on the merits in defense of any proceeding for which indemnification is permitted by Section 317, a corporation is obligated by Section 317 to indemnify such person against expenses actually and reasonably incurred in connection with the proceeding.

Pursuant to the terms under which the ordinary shares were issued to the selling securityholders, the Company has agreed to indemnify the selling securityholders against such liabilities as they may incur as a result of any untrue statement of a material fact in the Registration Statement, or any omission therein to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. Such

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indemnification includes liabilities under the Securities Act, the Exchange Act, state securities laws and the rules thereunder, but excludes liabilities for statements or omissions that were based on information provided by the selling securityholders, as to which the selling securityholders have agreed to indemnify the Company.

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### Item 9. Exhibits.

The exhibits listed on the exhibit index to this filing are incorporated herein by reference.

### Item 10. Undertakings.

(a) 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;

(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 set forth in the Registration Statement.

(iii) to include any material information with respect to the Plan of Distribution not previously disclosed in the Registration Statement or any other material change to such information in the Registration Statement.

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if 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 Exchange Act that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the 1933 Act, 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) To file a post-effective amendment to the Registration Statement to include any financial statements required by Item 8.A of Form 20-F 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 Securities 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, a post-effective amendment need

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not be filed to include financial statements and information required by Section 10(a)(3) of the Securities Act or Item 8.A of Form 20-F 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 Exchange Act that are incorporated by reference in the Form F-3.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the Registration Statement 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.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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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 Mountain View, state of California, on July 1, 2004.

COMMTouch SOFTWARE LTD.

By: /s/ DEVYANI PATEL

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Devyani Patel  
Vice President, Finance

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

Name	Title
-----	
/s/ GIDEON MANTEL*	Chief Executive Officer and Director

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----- Gideon Mantel	(Principal Executive Officer)
/s/ DEVYANI PATEL* ----- Devyani Patel	Vice President, Finance (Principal Financial and Accounting Officer)
/s/ CAROLYN CHIN* ----- Carolyn Chin	Director, Chairman of the Board
/s/ AMIR LEV* ----- Amir Lev	Director
/s/ OFER SEGEV* ----- Ofer Segev	Director
/s/ RICHARD SORKIN* ----- Richard Sorkin	Director
/s/ NAHUM SHARFMAN* ----- Nahum Sharfman	Director
/s/ LLOYD E. SHEFSY* ----- Lloyd E. Shefsky	Director
*/s/ DEVYANI PATEL ----- Devyani Patel	*Individually and as Attorney-in-fact and Authorized U.S. Representative

Exhibit Index

Exhibit Number -----	Description of Document -----
5.1	Opinion of Naschitz, Brandes & Co., Israeli counsel to the Registrant, as to certain legal matters with respect to the legality of the shares.
23.1	Consent of Kost, Forer, Gabbay & Kasierer, a Member of Ernst & Young Global.
23.2	Consent of Naschitz, Brandes & Co. (contained in Exhibit 5.1).
24.1	Power of Attorney of directors and certain officers of the Registrant.
99.1	Securities Purchase Agreement dated as of May 18, 2004 by and between Commtouch Software Ltd. and the Buyers listed on the Schedule of Buyers thereto (incorporated by reference to Exhibit 99.1 to Report of Foreign

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Private Issuer on Form 6-K for the month of May 2004  
(File No. 000-26495).