

COMMTOUCH SOFTWARE LTD

Form F-3

January 25, 2006

As filed with the Securities and Exchange Commission on January 25, 2006.

Registration No. 333-

**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)

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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.

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	Proposed Maximum	Proposed Maximum Price	Proposed Maximum Aggregate
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To Be Registered	Amount to be Registered(1)	Per Unit(2)	Offering Price	Amount of Registration Fee
Ordinary Shares, NIS 0.05 nominal value per share	9,000,000	\$1.05	\$9,360,000	\$1,001.52

(1) Represents shares being registered for resale by the holders (the selling securityholders) of Ordinary Shares and associated warrants for purchase of Ordinary Shares of the Company, pursuant to an agreement between the Company and selling securityholders, as follows: (i) 6,000,000 Ordinary Shares, representing the shares issued to selling securityholders under the Securities Purchase Agreement of October 2, 2005 (the SPA); (ii) 3,000,000 Ordinary Shares, representing the shares issuable upon exercise of warrants issued to selling securityholders under the SPA; and (iii) an indeterminable number of additional Ordinary Shares, pursuant to Rule 416 under the Securities Act of 1933 that may be issued to prevent dilution resulting from stock splits, stock dividends or similar transactions affecting the shares to be offered by the selling securityholders.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) based on the average of the high and low prices of the Company's Ordinary Shares as reported on The Nasdaq Capital Market System on January 24, 2006.

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 prospectuses that are included in the Registration Statements on Form F-3 No. 333-88248 filed on May 15, 2002, Form F-3 No. 333-109837 filed on October 20, 2003 (and as subsequently updated by way of a Rule 424(b)(3) filing on November 20, 2003), Form F-3 No. 333-117085 filed on July 1, 2004, Form F-3 No. 333-111731 filed on January 6, 2004, Form F-3 No. 333-1111734 filed on January 6, 2004, Form F-3 No. 333-121918 filed on January 10, 2005 and Form F-3 No. 333-122407 filed on January 31, 2005.

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 JANUARY __, 2006

PROSPECTUS

Commtouch Software Ltd.

47,194,489 Ordinary Shares

Private Placements of Ordinary Shares and Ordinary Shares Underlying Series A Preferred Shares and Warrants

As we describe further below under Plan of Distribution, the selling securityholders identified in this prospectus are selling up to 47,194,489 of our Ordinary Shares, 12,440,000 of which underlie 6,220,000 convertible Series A Preferred Shares and 11,918,301 of which underlie a like amount of warrants. The Series A Preferred Shares and warrants themselves are not being offered by this prospectus. The selling securityholders acquired the Ordinary Shares, convertible Series A Preferred Shares and rights to purchase Ordinary Shares from the Company in nine private placements: (i) a private equity sale transaction entered into on February 27, 2002 after approval by the Company's shareholders at a meeting held on April 8, 2002, (ii) a convertible note transaction of January 29, 2003 (as subsequently amended) after approval of the board of directors on January 13, 2003 and approval by shareholders on December 26, 2003 of the prepayment by the Company of 7.5% interest in return for immediate conversion of the loan and exercise of a portion of warrants, (iii) two private equity sale transactions in July 2003 after approval by the Company's board of directors on July 15, 2003 and July 28, 2003, (iv) a convertible note transaction entered into on November 26, 2003 after approval of the Company's board of directors on November 26, 2003, (v) a private equity sale transaction of May 18, 2004 after approval of the Company's shareholders on June 28, 2004, (vi) a private preferred equity sale transaction of October 31, 2004 after approval by the shareholders on December 6, 2004, (vii) a Redemption, Amendment and Exchange Agreement of October 31, 2004 (the RAE), which primarily modified the terms of the convertible note transaction of November 26, 2003, after approval by the shareholders on December 6, 2004 and (viii) a private equity sale transaction entered into on October 2, 2005 after approval by the Company's board of directors on September 21, 2005.

The Ordinary Shares offered hereby have been registered or, in the case of the Ordinary Shares issuable under the private equity transaction of October 2, 2005, are being registered pursuant to registration rights granted to the selling securityholders by the Company in connection with each transaction identified above. These securities may be offered from time to time by the selling securityholders through public or private transactions, on or off the Nasdaq Capital 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. For additional detail, please see the section below entitled Plan of Distribution.

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. Our Ordinary Shares are currently traded on The Nasdaq Capital Market under the symbol CTCH. On January 24, 2006, the last reported sales price of an Ordinary Share on The Nasdaq Capital Market was \$1.05 per share.

This investment involves risk. See Risk Factors beginning on page 5.

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 _____, 2005

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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 of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements in the future tense, and statements including words such as "expect", "plan", "estimate", "anticipate", or "believe" are forward-looking statements. These statements are based on information available to us at the time of filing of this document; we do not assume any obligation to update any of them. 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 the Internet market, commerce and the general economy, both domestic as well as international; fewer than expected new-partner relationships; fewer than expected license agreements resulting from Commtouch's exclusive rights to market DCC; competitive factors including pricing pressures; technological developments, and products offered by competitors; the ability of our OEM partners to successfully penetrate markets with products integrated with Commtouch technology; a slower than expected acceptance rate for real time AV solutions in general and the Commtouch Zero-Hour Virus Protection product in particular; availability of qualified staff for expansion; technological difficulties and resource constraints encountered in developing new products, such as the Zero Hour solution; and the failure of Commtouch to meet The Nasdaq Capital Market's listing standards in the future, as well as those risks described in this Prospectus and in the Company's Annual Reports on Form 20-F and reports on Form 6-K, which are available through www.sec.gov.

COMMTOUCH SOFTWARE LTD.

We are a provider of secure messaging products to enterprise customers and OEM distribution partners, including real-time anti-spam and virus outbreak detection solutions. The Company makes its solutions available for integration with security, content filtering, anti-virus and other filtering solutions through alliances and strategic partnerships. The Company also offers its secure messaging solutions to small, medium and large enterprises through a variety of third party distribution channels. A combination of proprietary patented and patent-pending technologies makes it possible for Commtouch to detect, alert and block spam and virus attacks as they are distributed over the Internet. At the core of Commtouch secure messaging offerings is Commtouch's proprietary Recurrent Pattern Detection (RPD) technology which, in general terms, analyzes messages associated with mass email outbreaks and directs the blocking of such emails, without the need to analyze individual messages.

Commtouch Offerings

Our Software Development Kit (SDK) enables third-party vendors to integrate the Commtouch anti-spam solution protections into their existing offerings, providing them with full spam identification and spam classification services from the Commtouch Detection 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 Detection 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 its solution. For example, if the Detection Center 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 Application Programming Interfaces, or APIs, which receive characteristics of incoming messages as input from the vendor's application, returning the status of the message as output from the Detection 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.

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

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

Our enterprise anti-spam solution consists of both a software element (the Enterprise Gateway) and a service component - the Detection 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 Detection Center, all allowing for real-time reaction to worldwide spam attacks. At the heart of the solution, however, is the Detection Center, which detects new spam attacks as soon as they are launched and distributed over the Internet. The Detection 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 Detection 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.

We recently announced the availability of our Zero-Hour Virus Protection solution, which is built on our proprietary RPD technology. This solution provides customers with the ability to block malware, including email transmitted viruses, in real time, during the period in which traditional anti-virus vendors analyze messages to determine whether they are indeed infected with a virus. It is this critical lag in response time that the Zero-Hour solution has been developed to remedy.

Lastly, we have available 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. 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.

Operating and Financial Review and Prospects

The following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere in this report. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, the words expects, anticipates, believes, intends, plans, seeks and estimates and similar expressions are intended to identify forward-looking statements. Commtouch's actual results and the timing of certain events may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those set forth elsewhere in this report. These factors are based on information available to us at the time of filing of this document; we do not assume any obligation to update any of them.

Overview

During 2005 and 2004, our business was to develop and sell, through reseller and OEM programs, anti-spam solutions to enterprise class customers. Also, during 2005 we released our anti-virus product, Zero-Hour Virus Protection.

Critical Accounting Policies and Estimates

Operating and Financial Review and Prospects are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Management believes the critical accounting policies and areas that require the most significant judgments and estimates to be used in the preparation of the consolidated financial statements are revenue recognition, investment in affiliated company and commitments and contingencies.

Revenue recognition

Revenue is recognized when the earnings process is complete, as evidenced by an agreement between the customer and the Company, when delivery has occurred or services have been rendered, when the fee is fixed or determinable and when collection is probable. The service component of the Company's solutions is considered essential to the functionality of the software components. Furthermore, the software components cannot be used on a standalone basis, or with another party's service. The customer has no ability to run the software or the SDK on its own hardware. As the software portion of the product can not stand on its own, the Company considers each sale as a service arrangement. Therefore, Revenues deriving from anti-spam services are recognized ratably over the life of each service, which generally includes a term period of one year to three years. The recognition of revenue in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the reported amounts of revenue. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, current operating results can be affected by revisions to prior accounting estimates.

Investment in Imatrix

The Company's investment in Imatrix is accounted for under the equity method. Management evaluates the investment in the affiliated company for evidence of other than temporary decline in value. When relevant factors indicate a decline in value, which is not deemed temporary, we will record a provision for the decline in value. As of September 30, 2005, no such decline in value has been indicated.

Commitments and Contingencies

Commtouch periodically records the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. These events are called contingencies, and Commtouch's accounting for such events is prescribed by Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS No. 5). SFAS No. 5 defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.

SFAS No. 5 does not permit the accrual of gain contingencies under any circumstances. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that the loss has been incurred, given the likelihood of the uncertain future events; and (2) that the amount of the loss can be reasonably estimated.

The accrual of a contingency involves considerable judgment on the part of management. Commtouch uses its internal expertise, and outside experts (such as lawyers, tax specialists and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss. The Company has recorded contingencies for situations in which management determined it was probable a loss had been incurred and the amount could be reasonably estimated.

Revenue Sources

Service Fees.

We started to recognize revenues from anti-spam solutions during the third quarter of 2003, and continued to recognize anti-spam solution sales revenues through the date of this prospectus. Revenues from anti-spam service are recognized when persuasive evidence of an arrangement exists, services are provided, the fee is fixed and determinable and collectibility is probable. Revenues deriving from anti-spam services are recognized ratably over the life of the service period.

Patent License Fees.

During 2005, we also began to recognize revenues from our patent licensing program. While these revenues were not significant during the nine months ending September 30, 2005, we anticipate additional revenues going forward. Revenues from patent licenses are recognized when persuasive evidence of an arrangement exists, delivery has occurred and the Company has no further obligations, the fee is fixed and determinable and collectibility is probable.

Results of Operations (U.S. dollars in thousands)

	Nine Months Ended Sept. 30, 2005	Nine Months Ended Sept. 30, 2004(*)
Revenues:	\$ 2,668	\$ 933
Cost of revenues:	519	475
Gross profit	2,149	458
Operating expenses:		
Research and development	1,107	1,125*
Sales and marketing	1,874	2,964
General and administrative	1,341	1,313*
Amortization of stock-based employee deferred compensation	—	30
Total operating expenses	4,322	5,432

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Operating loss	(2,173)	(4,974)
Interest and other income, net	94	398
Equity - Loss of Imatrix	(142) **	(63)
	(2,221)	(4,639)
Net loss	(2,221)	(4,639)
Amortization of beneficial conversion feature relating to convertible Series A Preferred Shares	(1,751)	—
	\$ (3,972)	\$ (4,639)
Net loss	\$ (3,972)	\$ (4,639)

* - Certain amounts from prior period have been reclassified to conform to the current presentation

** - Subsequent to the release of the Company's third quarter 2005 financial statements, the Company adjusted the equity loss in Imatrix by an additional \$58,000.

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Comparison of the Nine Months Ended September 30, 2005 and 2004

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

Revenues. Revenues increased nearly two fold from \$933 for the nine-months ended September 30, 2004 to \$2,668 for the same period in 2005. Revenues for the nine-months ended September 30, 2005 accounted for over half the increase due to OEM deals for our anti-spam solutions. The increase is also partially attributable to customer renewals, as the Company has been selling its anti-spam products for nearly two years and has gained traction in the market. For the nine-months ended September 30, 2005 and September 30, 2004, 20.71% and 33.57%, respectively, of the revenues were derived from one customer.

Cost of Revenues. Due to an increase in sales, cost of revenues increased marginally for the nine-months ended September 30, 2005 in comparison to the same period in 2004. Cost of revenues did not increase in the same proportion as sales during the period due to economies of scale. Most costs of revenues are fixed and are not affected by increases or decreases in revenues.

Research and Development. Due to the decrease in the use of outside consultants, research and development expenses decreased 2% from \$1,125 for the nine-months ended September 30, 2004 to \$1,107 for the same period in 2005.

Sales and Marketing. Sales and marketing expenses decreased 37% from \$2,964 for the nine-months ended September 30, 2004 to \$1,874 for the same period in 2005, as we reduced headcount and marketing efforts in order to keep costs down. Our shift in focus to an OEM based sales strategy resulted in a decreased need for sales employees. Sales and marketing personnel were reduced from 21 at the end of September 2004 to 13 at the end of September 2005.

General and Administrative. General and administrative expenses increased 2% from \$1,313 for the nine-months ended September 30, 2004 to \$1,341 for the same period in 2005.

Interest and Other Income, Net. Our interest and other income, net, decreased from \$398 for the nine-months ended September 30 2004 to \$94 for the nine-months ended September 30, 2005, primarily due to the recognition of non-cash financial income of approximately \$613 relating to the November 2003 convertible loan and related warrants and fair value adjustment thereof in 2004. The 2004 number also included interest payments of approximately \$179 on the convertible note. This note was repaid at the end of 2004, and thus there were no such charges in 2005.

Liquidity and Capital Resources

We have financed our operations from the issuance of equity securities and, to a lesser extent, from private loans and research and development grants from the Israeli government.

As of September 30, 2005, we had approximately \$3,495 of cash. In early October 2005, we raised \$3,000, bringing cash to approximately \$6,495 at the beginning of October 2005, which we believe is sufficient to fund operations through at least December 2006.

See Risk Factors Investment Risks We may need additional capital. For the nine-months ended September 30, 2005 and 2004, we utilized \$1,752 and \$3,987, respectively of cash to fund operating losses. Net cash provided by financing activities was approximately \$1,225 and \$5,120 for the nine-months ended September 30, 2005 and September 30, 2004, respectively. Through September 2004, we raised money from the issuance of convertible notes and Ordinary Shares, while during the comparable period in 2005, we raised money from the exercise of warrants and options.

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.

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Business Risks

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

Our success depends on the acceptance and use of our anti-spam solutions by enterprise, Original Equipment Manufacturer (OEM) and Internet Service Provider (ISP) customers and partners. While we have been selling our anti-spam products for approximately two years, it still remains difficult to estimate the size or growth rate of the potential market for our anti-spam offerings, since:

- our main focus - the licensing of our technology to OEM partners - only really began to gain traction from the latter half of 2004, and
- there are longer lead times both to close OEM deals and to have the partners complete the integration of Commtouch technology into their product offerings.

Therefore, we have yet to achieve a level of OEM and customer experience that will enable us to accurately predict the market's reaction to these important, new 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.

Furthermore, in late 2004 we announced the development of a new real time, virus outbreak detection product based on our proprietary Recurrent Pattern Detection (RPD) technology, and in early 2005 we announced the signings of our first customers for this product. Our success will also depend on how quickly we will be able to gain market acceptance of this new product, and the level of pricing this product will command. We have very little experience in the anti-virus market with our new virus outbreak detection product, and we may not succeed to the level that we require in order to generate adequate revenues; thus, our business could fail.

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 emails 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. Recent high profile prosecutions of direct marketers are likely to have a deterrent effect on the future activities of these and other similar direct marketers of unsolicited email.

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

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.

Dependence upon resellers and product concentration.

We expect to continue to be dependent upon resellers and OEM partners for a significant portion of our revenues, which will be derived from sales of our anti-spam solutions. Also, we are still developing our distribution channels and are currently dependent on a relatively small number of our global resellers and OEM partners to close the majority of sales transactions. If anticipated orders from these resellers or partners fail to materialize, or one of the key resellers or distribution channels ceases the promotion of our business, our 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 relatively limited history with our anti-spam and anti-virus solutions and because of the highly competitive 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 or cause our share price to decline. These factors include:

- Our ability to successfully develop and market our anti-spam and anti-virus solutions to new markets, both domestic and international;
- The market acceptance of our new anti-spam and anti-virus solutions;

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- The size, timing and fulfillment of orders for our new anti-spam and anti-virus solutions;
- The threat of delisting by Nasdaq;
- Our ability to expand our workforce with qualified personnel, as may be needed;
- Unanticipated bugs or other problems arising in providing our new anti-spam and anti-virus solutions to customers;
- The success of our resellers and OEM partners sales efforts to potential customers;
- The solvency of our resellers and OEM partners and their ability to allocate sufficient resources towards the marketing of our new anti-spam and anti-virus solutions to their potential customers;
- The rate of adoption of anti-spam and anti-virus solutions by customers in the current economic environment;
- The receipt or payment of irregular or nonrecurring revenues or expenses;
- Our ability to successfully develop and market new, modified or upgraded solutions, as may be needed;
- The substantial decrease in information technology spending;
- Pricing of our solutions;
- Our ability to timely collect fees owed by resellers and OEM partners; and
- The effectiveness of our customer support, whether provided by our resellers and OEM partners, 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 Gateway solution only since late June 2003 and anti-virus solution only since late 2004, it remains 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 and in late 2004 we also began marketing our new anti-virus solution. This change required us to 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 anti-spam solutions upon which you may be able to evaluate our business and prospects. While recent success in signing agreements with OEM partners is encouraging, it is still too early to judge whether this business will succeed.

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.

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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), multi-functional appliances and managed service solutions and which may be viewed as direct competitors to Commtouch include Symantec (Brightmail), TrendMicro, McAfee, CipherTrust, IronPort, VeriSign and MessageLabs. 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, which 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. Two such examples of this are the acquisition of Brightmail by Symantec Corp. and the Microsoft announcement of its acquisition of Sybari Software, one of our largest distributors.

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 and Yahoo®. These and other companies could potentially leverage their existing capabilities and relationships to enter the anti-spam industry.

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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, and we may not be able to compete successfully against current and future competitors.

Our ability to increase our revenues will depend on our ability to successfully execute our sales and business development plan.

The complexity of the underlying technological base of our anti-spam and anti-virus solutions and the current landscape of the anti-spam market require highly trained sales and business development personnel to educate prospective resellers, OEM partners 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, it is difficult to predict the possibility that we will succeed in selling our newly introduced solutions, either by way of resellers or OEM partners, 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 business development personnel may not be able to compete successfully against bigger and more experienced sales and business development departments of our competitors.

We have a history of losses and may never achieve profitability.

We incurred net losses of approximately \$4.9 million in 2002, \$6.8 million in 2003 and \$7.2 million in 2004. As of September 30, 2005, we had an accumulated deficit of approximately \$170 million. We are participating in a relatively new and unstable market, 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.

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, results of operations or financial condition.

In September 2003, a final order was entered by a U.S. District Court for the Northern District of California, thereby settling 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 liability imposed upon such a director for the benefit of a third party pursuant to a court judgment, including a settlement or an arbitrator's decision, confirmed by a 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 by or on behalf of the Company or by others, or in a criminal action in which he was acquitted, or in a criminal action which does not require proof of criminal intent in which he was convicted.

Risk due to economic conditions.

Should economic conditions fail to improve, our ability to sell our anti-spam and anti-virus 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, OEM partners' customers or our resellers or 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

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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 36 employees (as of October 31, 2005) continues to strain our operational resources, and 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.

As of October 31, 2005, we had sales offices in Israel and the United States. We also are marketing our anti-spam and anti-virus 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:

- Differing technology standards;
- Inability of distribution channels to successfully market our anti-spam and anti-virus solutions;
- Export restrictions, including export controls relating to encryption technologies;
- Difficulties in collecting accounts receivable and longer collection periods;
- Unexpected changes in regulatory requirements;
- Political and economic instability;
- Potentially adverse tax consequences;
- The adoption of new legal penalties which may discourage the distribution of unsolicited email messages; and
- 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. The U.S. government has been actively pursuing and taking military and other action against those behind the September 11, 2001 attacks, and may initiate broader action against national and global terrorism. 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 may not have the resources or skills required to adapt to the changing technological requirements and shifting preferences of our customers and their users.

The 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 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, OEM partners 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, OEM 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 solutions may be adversely affected by defects, which could cause our customers, OEM partners or end users to stop using our solutions.

Our anti-spam and anti-virus 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 and anti-virus solution offerings, it is possible that, despite testing by us, defects may exist in the software we license. These defects could cause interruptions in

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our anti-spam and anti-virus 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

If we will be in need of additional capital, we may not be able to secure additional funds on acceptable terms and the Company could fail.

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 and anti-virus solutions for enterprises and, possibly, other target markets.

Although the Company has exhibited incremental improvement in its financial condition, especially during the latter half of 2005, the Company remains very thinly capitalized. As such, we might become dependent upon raising additional funds to finance our business. Our cash balance was approximately \$4,100,000 at December 31, 2004. Our cash balance at September 30, 2005 was \$3,495,000. Based on the cash balance at September 30, 2005, the October 2005 financing in which the Company raised an additional \$3,000,000, current projections of revenues, related expenses and the ability to further curtail certain discretionary expenses, the Company believes it has sufficient cash to continue operations through at least December 2006.

If additional funding becomes necessary and we are unable to raise those 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. Even if available on acceptable terms, any such additional funding may result in significant dilution to existing shareholders.

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. For additional information pertaining to the status of the OCS grants, see our Annual Report on Form 20-F for 2004, Item 10. Additional Information - ISRAELI TAXATION AND DEVELOPMENT PROGRAMS , Law for the Encouragement of Industrial Research and Development, 5744-1984 .

If we cannot continue to 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 Capital Market. To continue to be listed, among other requirements, 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. While as of the date of this Prospectus we meet Nasdaq's listing requirements, we have had a history of falling out of compliance and subsequently regaining compliance.

On May 10, 2004, we received a Nasdaq Staff Determination letter indicating that Commtouch had failed to comply with the shareholders' 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 Commtouch's securities were therefore subject to delisting from The Nasdaq SmallCap Market (since renamed The Nasdaq Capital Market). 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 would 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 imposed several conditions to the continued availability of that exception. Commtouch met those conditions and, in June 2005, the exception was removed and Commtouch regained full compliance with Nasdaq's listing requirements. Thereafter, Commtouch temporarily fell out of compliance and, as a result of the October 2005 private placement, once again regained compliance.

As of September 30, 2005, based on a pro forma as adjusted basis to give effect to the October 2005 private placement of 6,000,000 Ordinary Shares at \$0.50 per share, the Company's shareholders' equity was \$4,649,000 million [or \$2,149,000 in excess of Nasdaq's continued listing requirement of \$2.5 million]. If we continue to incur net losses it will cause continued reductions in our shareholders' equity. Accordingly, our ability to continue to meet the Nasdaq listing requirements will depend either on our ability to reach certain levels of net income or raise substantial additional equity capital, or on our market capitalization first increasing and then remaining above \$35 million.

In addition, the Company must continue to maintain compliance with all other requirements for continued listing on The Nasdaq Capital Market. Commencing May 29, 2006, the Company also will be required to maintain a minimum \$1.00 bid price per Ordinary Share. Failure to satisfy any of the foregoing conditions may result in the Company's delisting.

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

There can be no assurance that the Company will continue to have the ability to meet the Nasdaq's listing requirements. If our shares are delisted by the Nasdaq, 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.

If our shares are delisted, they may become subject to the SEC's penny stock rules and be more difficult to sell. 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 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.

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 the voting power in the Company (together known as affiliated entities), beneficially own, in the aggregate, approximately 39.42% of our outstanding Ordinary Shares and convertible Series A Preferred Shares (aggregated for purposes of determining voting power, on a non-converted basis) as of November 15, 2005. Included in the calculation of voting power are (i) warrants and options exercisable by the affiliated entities within 60 days thereof and (ii) additional shares resulting from the conversion of Series A Preferred Shares by such affiliated entities. 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. In addition, conflicts of interest may arise as a consequence of the significant shareholders control relationship with us, including:

- 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;
- Conflicts related to corporate opportunities that could be pursued by us, on the one hand, or by these shareholders, on the other hand; or
- Conflicts related to existing or new contractual relationships between us, on the one hand, and these shareholders, on the other hand.

Substantial sales of our Ordinary Shares could adversely affect our share price; Potential dilution.

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 restrictions are currently eligible for resale under various registration statements declared effective by the SEC, including a significant number of shares that will be eligible for resale in the future if the shareholders in the two transactions of October 31, 2004 decide to convert their Series A Preferred Shares into Ordinary Shares, as well as those shares that will be eligible for resale due to the exercise of warrants issued during 2005 and prior periods. Since September 15, 2005, each outstanding Series A Preferred Share is convertible into two Ordinary Shares. The additional Ordinary Shares created by the exercise of warrants or conversion of Series A Preferred Shares will dilute existing Ordinary Share holders.

Risk of failure to honor registration rights for the 2002 through 2005 private placements.

According to registration rights agreements with the selling securityholders listed under registration statements on Forms F-3 filed with the SEC on May 15, 2002, October 20, 2003, January 6, 2004, July 1, 2004, January 10, 2005 and January 31, 2005 and in January 2006, 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 example, one of the October 31, 2004 agreements provides for liquidated damages of up to one million additional unregistered Series A Preferred Shares. For details about the liquidated damages for the 2002 private placement, refer to Exhibit 2.8 of the Report on Form 20-F filed on April 26, 2002. For details about the liquidated damages for the July

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2003 private placements, refer to the Report on Form 6-K 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 liquidated damages for the November 2003 private placement, refer to Form 6-K for the month of November, filed December 2, 2003. For details about the liquidated damages for the May 2004 private placement, refer to Form 6-K for the month of May, filed May 19, 2004. For details about the liquidated damages for the two October 31, 2004 transactions, refer to Form 6K for the month of November, filed November 5, 2004. For details about the liquidated damages for the October 2005 private placement, refer to Form 6-K for the month of October, filed October 11, 2005.

Reduced proceeds from sale or liquidation of the Company.

Upon a sale of the Company by way of an Organic Change, as defined in the Company's Amended and Restated Articles of Association (see Form 6-K for the month of November, filed November 12, 2004) or Company liquidation, the holders of Series A Preferred Shares, in exchange for each Preferred Share, are entitled to receive from the sale consideration or remaining liquidation assets, as the case may be, at least \$1.00 in the form of securities or other assets. This could result in a reduction in the amount of sales or liquidation proceeds otherwise available for holders of our Ordinary Shares.

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 patented and 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. We recently purchased a United States patent, and have two pending formal patent applications in the United States (one pertaining to anti-spam and the other pertaining to our virus outbreak detection technology), as well as one outstanding United States 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.

Despite our precautions, unauthorized third parties may copy certain portions of our technology, reverse engineer or obtain and use information that we regard as proprietary or otherwise infringe or misappropriate our patent or our patent pending technology, trade secrets, copyrights, trademarks and similar proprietary rights. We may not have the proper resources in order to adequately protect our intellectual property. 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 cannot be certain that our software does not infringe issued patents that may relate to our anti-spam or anti-virus 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 and virus outbreak detection solutions. Therefore, 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. We may not have the proper resources in order to adequately defend against such claims.

If we are unable to obtain third-party content licenses, on commercially reasonable terms, our business, financial condition and operating results may suffer.

We 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.

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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 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.

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, though with the regime change in the Palestinian Authority during 2004, renewed efforts at establishing a plan for peace have begun. We cannot predict whether a renewed peace process will result in a mutually acceptable resolution of the Israeli/Palestinian conflict, or the consequences that peace discussions 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.

In addition, Israel and some companies doing business with Israel have been the subject of an economic boycott by Arab countries since Israel's establishment. These restrictive laws and policies may have an adverse impact on our operating results, financial condition or expansion of our business.

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 in the event of a national emergency. 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. Any disruption in our operations would harm our business.

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, or 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 has been reversed since the beginning of 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 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, or OCS, for the financing of a significant portion of our research and development expenditures in Israel. These grants totaled \$0.6 million.

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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. We did not submit an application for funding during 2004 or for the period up through October 31, 2005. However, we may apply for additional grants in the future. The OCS budget has been subject to reductions which may affect the availability of funds for possible future grants. 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.

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In order to meet specified conditions in connection with the grants and programs of the OCS, we have made representations to the Israel government about our Israeli operations. From time to time the conduct of our Israeli operations has deviated from our forecasts. If we fail to meet the conditions to grants, including the maintenance of a material presence in Israel, or if there is any material deviation from the representations made by us to the Israeli government, we could be required to refund the grants previously received (together with an adjustment based on the Israeli consumer price index and an interest factor) and would likely be ineligible to receive OCS grants in the future.

Under the Research Law, the discretionary approval of an OCS committee is required for any transfer of technology developed with OCS funding. OCS approval is not required for the export of any products resulting from the research and development, or for the licensing of the technology in the ordinary course of business. There is no assurance that we will receive the required approvals for any proposed transfer. Such approvals, if granted, may be subject to the following additional restrictions:

- we could be required to pay the OCS a portion of the consideration we receive upon any sale of such technology to an entity that is not Israeli. The scope of the support received, the royalties that were paid by us, the amount of time that elapsed between the date on which the know-how was transferred and the date on which the grants were received, as well as the sale price, will be taken into account in order to calculate the amount of the payment; and
- the transfer of manufacturing rights could be conditioned upon an increase in the royalty rate and payment of increased aggregate royalties (up to 300% of the amount of the grant plus interest, depending on the percentage of the manufacturing that is foreign).

These restrictions may impair our ability to sell our technology assets or to outsource manufacturing outside of Israel. The restrictions will continue to apply even after we have repaid the full amount of royalties payable for the grants.

The tax benefits from our approved enterprise programs require us to satisfy specified conditions. If we fail to satisfy these conditions, we may be required to pay additional taxes and would likely be denied these benefits in the future.

The Investment Center of the Israeli Ministry of Industry and Trade has granted approved enterprise status to several investment programs at our manufacturing facility. The portion of our income derived from these approved enterprise programs, commencing when we begin to generate net income from these programs, will be exempt from tax for a period of two years and will be subject to a reduced tax rate for an additional five to eight years, depending on the percentage of our share capital held by non-Israelis. The benefits available to an approved enterprise program are dependent upon the fulfillment of conditions stipulated in applicable law and in the certificate of approval. If we fail to comply with these conditions, in whole or in part, we may be required to pay additional taxes during the period in which we would have benefited from the tax exemption or reduced tax rates and would likely be denied these benefits in the future.

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.

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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 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 law treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his Ordinary Shares for shares in a foreign corporation to immediate taxation or to taxation before his investment in the foreign corporation becomes liquid. These provisions may adversely affect the price of our shares.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the capitalization and indebtedness of Commtouch as of November 30, 2005 (in thousands):

	(UNAUDITED) Actual
	<u> </u>
Long-term liabilities	\$ 581
	<u> </u>
Shareholders' equity:	
Convertible Series A Preferred Shares 7,680,000 shares authorized, with 6,680,000 issued and outstanding	75
Ordinary Shares 150,700,000 shares authorized, with 53,010,318 issued and outstanding	635
Additional paid-in capital	173,660
Accumulated other comprehensive income	26
Accumulated deficit	(169,901)
	<u> </u>
Total shareholders' equity	\$ 4,495
	<u> </u>
Total capitalization and indebtedness	\$ 5,076
	<u> </u>

THE OFFER AND LISTING

The Offering

Ordinary Shares offered by selling securityholders 47,194,489 shares, NIS 0.05 par value per share

Price As determined by each selling securityholder

Ordinary Shares outstanding after the offering 77,813,371 shares (taking into account 53,981,072 Ordinary Shares and 6,220,000 convertible Series A Preferred Shares outstanding prior to the offering, as of December 9, 2005)

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Use of proceeds	Commtouch will not receive any of the proceeds from the sale of the shares by the selling securityholders in this offering.
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Nasdaq Capital Market Symbol	CTCH
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Shares will be offered on a registered basis and not as bearer shares.

Market Information

The Company's Ordinary Shares were traded publicly on The Nasdaq Stock Market under the symbol CTCH from July 13, 1999 through June 29, 2004 (up to June 7, 2002 on the National Market, and since that time, on the Capital Market formerly known as the SmallCap Market). From June 30, 2004 through June 26, 2005 the Ordinary Shares traded under the symbol CTCHC, and from June 27, 2005 the Company's stock symbol reverted to CTCH.

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

	High	Low
1999 (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
2004:	\$ 1.24	\$ 0.27
2005:	\$ 1.30	\$ 0.45
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
Second Quarter	\$ 1.09	\$ 0.55
Third Quarter	\$ 0.58	\$ 0.27
Fourth Quarter	\$ 0.55	\$ 0.31
2005:		
First Quarter	\$ 0.81	\$ 0.45
Second Quarter	\$ 0.70	\$ 0.48
Third Quarter	\$ 0.65	\$ 0.50
Fourth Quarter	\$ 1.30	\$ 0.51
Most Recent Six Months:		
July 2005	\$ 0.59	\$ 0.50
August 2005	\$ 0.65	\$ 0.56
September 2005	\$ 0.60	\$ 0.51
October 2005	\$ 0.60	\$ 0.51
November 2005	\$ 0.83	\$ 0.55
December 2005	\$ 1.30	\$ 0.78

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. We cannot be certain as to when and if all of these warrants 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 (i) were issued under the Securities Purchase Agreement of October 2, 2005, (ii) are issuable upon conversion of Series A Preferred Shares under the Redemption, Amendment and Exchange Agreement of October 31, 2004 (RAE) (iii) are issuable upon conversion of Series A Preferred Shares under the Securities Purchase Agreement of October 31, 2004 (iv) were issued under the Securities Purchase Agreement dated May 18, 2004, (v) were issued under the Ordinary Shares and Warrants Purchase Agreements dated July 29, 2003 and July 10, 2003, (vi) were issued pursuant to the Convertible Loan Agreement of January 29, 2003, and (vii) are issuable upon exercise of warrants that were also issued pursuant to the Securities Purchase Agreements of October 2, 2005, May 18, 2004 and November 26, 2003, Convertible Loan Agreement of January 29, 2003 and the Ordinary Shares and Warrants Purchase Agreements of July 29, 2003, July 10, 2003 and February 27, 2002. For additional information regarding the issuance of those shares, convertible Series A Preferred Shares and warrants, see Private Placements of Ordinary Shares and Ordinary Shares Underlying Series A Preferred Shares and Warrants above.

Of the 47,194,489 Ordinary Shares being offered by selling securityholders, 38,194,489 were registered on prior registration statements and 9,000,000 Ordinary Shares are being registered under the Form F-3 registration statement to which this prospectus is attached. The Ordinary Shares have been and are being registered in order to permit the selling securityholders to offer the shares for resale from time to time. Except for (i) the participation of Gideon Mantel, Amir Lev, Nahum Sharfman, Lloyd Shefsky, Ian Bonner and Aviv Raiz (collectively the Board Members) in the management of the Company, (ii) the consulting agreements with Mr. Bonner and AxxessNet Ltd. (a company related to AxxessNet Resources LLC., one of the selling securityholders), (iii) an advisory agreement with AxxessNet Ltd., and (v) the selling securityholders participation in the relevant agreement(s) described above, the selling securityholders have not had any material relationship with us within the past three years.

The table below presents information provided by the selling securityholders with respect to beneficial ownership of our Ordinary Shares as of December 9, 2005, as adjusted to reflect the sale of the shares offered under this prospectus by the selling securityholders, and assumes that all shares being offered under this prospectus are ultimately sold in the offering. The second column lists the number of Ordinary Shares beneficially owned by each selling securityholder, based on its ownership of the Ordinary Shares, Series A Preferred Shares and warrants, as of December 9, 2005, assuming conversion of all Series A Preferred Shares and exercise of warrants held by the selling securityholders on that date, and exercise of options within 60 days of November 15, 2005, without regard to any limitations on conversions or exercise.

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The fourth column lists the Ordinary Shares being offered under this prospectus by the selling securityholders.

In accordance with the terms of previous registration rights agreements with Israel Seed, Smithfield Fiduciary, Omicron Master Trust, Cranshire Capital, Vertical Ventures and Iroquois Capital (together known as the Funds), this prospectus generally covers the resale of the sum of (i) 130% of the number of Ordinary Shares issuable upon conversion of Series A Preferred Shares issued to the Funds (other than Iroquois Capital) under

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the RAE, (ii) the number of Ordinary Shares issuable upon conversion of Series A Preferred Shares Issued to the Funds (other than Israel Seed and Vertical Ventures) under the Securities Purchase Agreement of October 31, 2004, (iii) the number of Ordinary Shares issued to the selling securityholders in the private placement of May 18, 2004, less sales executed by the Funds since that date, (iv) 130% of the number of Ordinary Shares issuable upon exercise of the warrants under such transaction and (v) 130% of the number of Ordinary Shares issuable upon exercise of the warrants issued to the Funds (other than Iroquois Capital) under the November 26, 2003 transaction, determined as if the outstanding warrants and convertible Series A Preferred Shares were exercised in full, in each case, as of the trading day immediately preceding the date the registration statement relating to this prospectus was initially filed with the SEC. Because the exercise price and number of warrants may be adjusted pursuant to the terms of the warrants, the number of shares that will actually be issued may be more or less than the number of shares being offered by this prospectus.

Additional Investment Rights and related warrants under the private placement of May 18, 2004 (May 2004 securities) and warrants under the RAE were not exercised by any of the Funds prior to their respective termination dates, and thus, these securities have been cancelled. As such, 8,749,460 Ordinary Shares previously registered and covering the May 2004 securities, and 4,333,336 Ordinary Shares previously registered and covering the RAE warrants are hereby deregistered.

Under the terms of the Funds' warrants, a Fund may not exercise the warrants to the extent such exercise would cause such Fund, together with its affiliates, 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 exercise of warrants which have not been exercised. The number of each Fund's shares in the second column does not reflect this limitation.

The sixth column assumes the sale of all of the shares offered by the selling securityholders pursuant to this prospectus. The selling securityholders may sell all, some or none of their shares in this offering. See "Plan of Distribution."

In the table below, the applicable percentage of ownership for each selling securityholder is based on 53,981,072 Ordinary Shares and 6,220,000 Series A Preferred Shares outstanding as of December 9, 2005, and 77,813,371 Ordinary Shares and zero Series A Preferred Shares outstanding immediately following the completion of this offering, together with any options held by that selling securityholder that are exercisable within 60 days of November 15, 2005.

Name of Beneficial Owner	Shares Beneficially Owned Prior to Offering	Shares to be Offered		Shares Beneficially Owned After Offering		
	Number	Percent of Outstanding Shares	Number	Percent of Outstanding Shares	Percent of Outstanding Shares	
Israel Seed IV, L.P.(1) c/o Maples and Calder, P.O. Box 309 G.T., Uglund House, South Church Street Grand Cayman, Cayman Island	4,472,606*	7.15	4,743,037	7.53	0	0
Smithfield Fiduciary LLC(2) c/o Highbridge Capital Management, LLC 9 West 57 th Street, 27 th Floor New York, New York 10019	1,508,910*	2.46	1,745,158	2.83	0	0

Name of Beneficial Owner	Shares Beneficially Owned Prior to Offering	Shares to be Offered		Shares Beneficially Owned After Offering		
	Number	Percent of Outstanding Shares	Number	Percent of Outstanding Shares	Number	Percent of Outstanding Shares
Omicron Master Trust (3) c/o Omicron Capital, LP 650 Fifth Avenue New York, New York 10019	1,098,254*	1.80	1,275,922	2.08	0	0
Cranshire Capital L.P. (4) c/o Downsview Capital, Inc. The General Partner 666 Dundee Road, Suite 1901 Northbrook, IL 60062	1,151,646*	1.89	1,355,635	2.21	0	0
Vertical Ventures, LLC (5) 900 Third Avenue, 26th Floor New York, New York 10022	920,607	1.51	1,076,448	1.76	0	0
Iroquois Capital LP (6) 641 Lexington Avenue, 26 th Floor New York, New York 10022	839,227	1.38	861,053	1.42	0	0
Argos Capital Management, Inc. 211 West 61st Street, 6th Floor New York, NY 10023	173,226	0.29	173,226	0.29	0	0
Provident Advisors LLC 294 Grove Lane East, Suite 280 Wayzata, MN 55391	166,667	0.28	166,667	0.28	0	0
Gracie Capital LP	266,666	0.44	266,666	0.44	0	0

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527 Madison Avenue

11th Floor,

NY, NY 10022

Gracie Capital International Ltd.	66,666	0.11	66,666	0.11	0	0
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Par La Ville Place

14 Par La Ville Road

Hamilton, HM JX

Bermuda

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Name of Beneficial Owner	Shares Beneficially Owned Prior to Offering		Shares to be Offered		Shares Beneficially Owned After Offering	
	Number	Percent of Outstanding Shares	Number	Percent of Outstanding Shares	Number	Percent of Outstanding Shares
OZF Ltd. Tropic Isle Building Wickhams Cay, P.O. Box 964 Road Town, Tortola, British Virgin Islands c/o Tis Prager, Prager Dreifuss, Muehlebachstr. 6, CH-8008 Zurich, Switzerland	4,006,138	6.52	4,006,138	6.52	0	0
Clarenville Ltd. Nora Court 86, CY-3040 Athinon Street Limassol, Cyprus	879,226	1.45	879,226	1.45	0	0

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Victor Haim Amara Marcus St. 8 Jerusalem, 92333 Israel	1,310,004	2.16	1,310,004	2.16	400	<0.01
Apollo Nominees Inc. Suite 100 One Financial Place, Lower Collymore Rock, St.Michael, Barbados	201,434	0.33	201,434	0.33	0	0
Yosef Pinson 4 Hausner St., #30 Tel Aviv, Israel 69363	901,434	1.49	901,434	1.49	0	0
Moshe Bardichev (7) Ein Vered, 40696 Israel	1,076	<0.01	1,076	<0.01	0	0
Compugen Systems Ltd. 25 Leek Crescent Richmond Hill, ON Canada L4B4B3	1,332,562	2.21	1,332,562	2.21	0	0
Amnon Shoham 25 Farley Pond Lane Needham, MA 02492	76,076	0.13	76,076	0.13	0	0
AxcessNet Resources LLC.(8) One Cranberry Hill, Suite 6 Lexington, MA 02421	1,353,844	2.24	1,353,844	2.24	0	0

Shares Beneficially Owned Prior to Offering	Shares to be Offered	Shares Beneficially Owned After Offering
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Name of Beneficial Owner	Number	Percent of Outstanding		Percent of Outstanding		Percent of Outstanding Shares
		Shares	Number	Shares	Number	
Yuval Cohen 52 Etzion St. Raanana 43563 Israel	63,717	0.11	63,717	0.11	0	0
Delta Capital Ltd. 788-790 Finchley Road London, NW117TJ	70,717	0.12	70,717	0.12	0	0
Delta Capital Investments Ltd. 788-790 Finchley Road London, NW117TJ	653,194	1.08	653,194	1.08	0	0
Hawkeye Ventures, Inc. c/o Zysman, Aharoni, Gayer 51A Hayarkon Street Tel Aviv (Attn: Shai Baranov)	85,717	0.14	85,717	0.14	0	0
JoRon Management C/o Seed Capital Partners Key Center 50 Fountain Plaza Buffalo, NY 14202	75,717	0.13	75,717	0.13	0	0
KKB Ventures LLC Attn: Ken Casey 285 Musketaquid Rd. Concord, Ma. 01742	1,131,592	1.87	1,131,592	1.87	0	0
Timothy J. Straight, Trustee (9) The Straight Trust 626 Partridge Avenue Menlo Park, Ca 94025	150,000*	0.25	150,000	0.25	0	0
Shem Basum Ltd. 8 Hanna Senesh St. Kfar-Sava 44358 Israel	225,574	0.37	225,574	0.37	0	0

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Ehud Hillman I.D. No. 051745818 Amirim 12, Tel-Aviv, Israel-69357	237,738	0.39	235,738	0.39	2,000	<0.01
Gil Agmon Barazani 11, Ramat Aviv, Tel Aviv, Israel ID No: 570261822	51,369	0.09	51,369	0.09	0	0

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Name of Beneficial Owner	Shares Beneficially Owned Prior to Offering		Shares to be Offered		Shares Beneficially Owned After Offering	
	Number	Percent of Outstanding Shares	Number	Percent of Outstanding Shares	Number	Percent of Outstanding Shares
Jacob Benasayag I.D. No. 16538100 Haduhifat 41, Raanana, Israel	200,000	0.33	200,000	0.33	0	0
Arie Pundak I.D. No. 065178444 Asher Bar-Lev 5/13 Petach-Tikva, Israel	2,300	<0.01	2,300	<0.01	0	0
Danitan Nihul Ltd. Reg. No. 511718470 Lamerhav 53b', Ramat Hasharon, Israel 47226	84,985	0.14	59,985	0.10	25,000	0.04
Gideon Mantel (10) c/o Commtouch Software, Inc. 1300 Crittenden Lane, Ste. 102 Mountain View, CA 94043-4655	2,669,471	4.33	1,123,288	1.85	1,546,183	2.51
Amir Lev (10) Be'er Gan St. 17	1,436,353	2.35	273,974	0.45	1,162,379	1.90

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Ein Vered, 40696 Israel

Nahum Sharfman (11) 81 Hayarkon St., Apt #8	2,375,881	3.88	1,721,506	2.82	654,375	1.07
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Tel Aviv 63432 Israel

Origami Ltd. 57 Achad Ha'am St. Tel Aviv, CA 65207	256,460	0.43	256,460	0.43	0	0
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Dr. A.I. Mlavsky c/o Gemini Israel Venture Funds Ltd. 9 Hamenofim Street Herzliya 46725, Israel	203,974	0.34	203,974	0.34	0	0
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Yossi Sela c/o Gemini Israel Venture Funds Ltd. 9 Hamenofim Street Herzliya 46725, Israel	203,974	0.34	203,974	0.34	0	0
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Shmuel Sagi PO Box 589 Karkur, 37105 Israel	628,945	1.04	547,945	0.91	81,000	0.13
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Name of Beneficial Owner	Shares Beneficially Owned Prior to Offering	Percent of Outstanding Shares	Shares to be Offered	Percent of Outstanding Shares	Shares Beneficially Owned After Offering	
	Number		Number		Number	Percent of Outstanding Shares
Bert Amato	452,795	0.75	452,795	0.75	0	0

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364 Glencairn Avenue

Toronto, Ontario

M5N 1V1

Edward B. Roberts	679,190*	1.13	679,190	1.13	0	0
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300 Boylston St.

Boston, MA 02116

LENE LP (12)	452,794	0.75	452,794	0.75	0	0
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c/o Lloyd E. Shefsky, General Partner

111 E. Wacker Dr. Suite 2800

Chicago, IL 60601

Lloyd Shefsky (12)	512,106	0.85	410,544	0.68	101,562	0.17
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111 E. Wacker Dr. Suite 2800

Chicago, IL 60601

XDL Capital Corp.	2,190,704	3.62	2,190,704	3.62	0	0
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30 St. Clair Avenue West, Ste. 901,
Toronto, M4V 3A1

Yona Hollander	45,278	0.08	45,278	0.08	0	0
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19261 Phil lane

Cupertino, CA 95014

Bingham McCutchen LLP	234,572	0.39	234,572	0.39	0	0
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Three Embarcadero Center
San Francisco, CA 94111

Aviv Raiz	9,853,737	15.48	8,900,000	13.98	953,737	1.50
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6 Sinai St.

Ramat Hasharon , Israel

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Yehuda Keren	980,000	1.62	980,000	1.62	0	0
13 Hashoftim St.						
Ramat Hasharon , Israel						
Ilan Raviv	820,000	1.36	820,000	1.36	0	0
16 Maayan Harod St.						
Ramat Hasharon, Israel						

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Name of Beneficial Owner	Shares Beneficially Owned Prior to Offering		Shares to be Offered	Shares Beneficially Owned After Offering		
	Number	Percent of Outstanding Shares	Number	Percent of Outstanding Shares	Number	Percent of Outstanding Shares
DS-Apex Holdings Ltd.	750,000	1.24	750,000	1.24	0	0
2 Kaufman St., 9th Floor, Tel Aviv, Israel 68012						
Yuvalim Pension Fund Ltd.	750,000	1.24	750,000	1.24	0	0
2 Kaufman St., 18th Floor, Tel Aviv, Israel 68012						
Ian Bonner(13)	677,500	1.12	400,000	0.66	277,500	0.46
5527 Inverrary Court						
Dallas, TX 75287						
Ney 1, L.P.	200,000	0.33	200,000	0.33	0	0

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c/o Elad Yoran

486 Mount Holly Rd.

Katonah, NY 10536

Lou Ryan	300,000*	0.50	300,000	0.50	0	0
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7080 Wooded Lake Drive, San
Jose CA 95120

Hillel Bachrach	300,000	0.50	300,000	0.50	0	0
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c/o *Orex Computed Radiography*
2000 Commonwealth Ave. (#200)
Auburndale, MA 02466

Philippe Szwarc	200,000	0.33	200,000	0.33	0	0
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105 Seaver Street

Brookline MA 02445

TOTALS	50,932,623	63.19	47,194,489	58.93	4,804,136	5.92
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* Subsequent to December 9, 2005 (the date through which the above table was prepared) and through January 10, 2006:

- a. Israel Seed IV, L.P. disposed of 1,940,142 Ordinary Shares;
- b. Smithfield Fiduciary LLC disposed of 880,000 Ordinary Shares;
- c. Omicron Master Trust disposed of 500,000 Ordinary Shares;
- d. Cranshire Capital LP disposed of 620,000 Ordinary Shares;
- e. Timothy Straight disposed of 150,000 Ordinary Shares;
- f. Edward B. Roberts disposed of 200,000 Ordinary Shares; and
- g. Lou Ryan disposed of 150,000 Ordinary Shares.
- h. 7 other selling securityholders disposed of 399,698 Ordinary Shares in the aggregate.

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(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 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

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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 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. Shares shown as beneficially owned by Israel ISLP IV prior to the offering also include shares acquired as a result of its investment in the Company in a private placement of July 2003.

(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 Ordinary Shares owned by Omicron, and Winchester may be deemed to share voting and dispositive power over our Ordinary Shares owned by Omicron. Omicron Capital, OCI and Winchester disclaim beneficial ownership of such shares. 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 our Ordinary Shares owned by Omicron. Messrs. Morali and Bernstein disclaim beneficial ownership of such shares and neither of such persons has any legal right to maintain such delegated authority. No other person has sole or shared voting or dispositive power with respect to our Ordinary Shares being offered by Omicron, as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. Omicron and Winchester are not affiliates of one another, as that term is used for purposes of the Securities Exchange Act of 1934, as amended, or of any other person named in this prospectus as a selling securityholder. 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 or Winchester.

(4) Mitchell P. Kopin is the president of Downsview 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 securities held by Iroquois Capital, LP. Mr. Silverman disclaims beneficial ownership of the shares held over by Iroquois Capital, LP.

(7) Moshe Bardichev is the brother-in-law of Mr. Amir Lev, President, Chief Technology Officer and director, of Commtouch.

(8) AccessNet Resources, LLC. and AxxessNet Ltd. are under common ownership. AxxessNet Ltd. provides consulting and advisory services to the Company.

(9) Mr. Straight is a former VP Sales of Commtouch.

(10) Messrs. Mantel and Lev are, respectively, Chief Executive Officer and director, and President, Chief Technology Officer and director, of Commtouch.

(11) Mr. Sharfman is a director of Commtouch.

- (12) Mr. Shefsky is a director and audit committee member of Commtouch.
- (13) Mr. Bonner is a director, Executive Chairman of the board of directors and a consultant of Commtouch.

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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 December 9, 2005, we had 53,981,072 Ordinary Shares and 6,220,000 convertible Series A Preferred Shares outstanding, plus 11,794,053 outstanding warrants exercisable into an identical amount of Ordinary Shares. The primary transactions pursuant to which the above described securities were issued by the Company are summarized as follows: 3,450,000 Ordinary Shares sold in our initial public offering in July 1999; 1,344,086 Ordinary Shares issued to InfoSpace and Vulcan Ventures concurrent with our initial public offering and registered in 2000 in a secondary offering along with 707,965 Ordinary Shares we issued to Microsoft Corporation; 315,789 shares we issued to Rideau Ltd., a private investor, on June 30, 2001; 1,406,612 shares registered in August 2001 in a secondary offering for shareholders of Wingra, a former subsidiary of the Company; 7,095,886 shares and shares underlying warrants registered in May 2002 for certain shareholders under a private placement, as identified in the Form F-3 filed with the SEC on May 15, 2002; 8,793,564 shares and shares underlying warrants registered on November 3, 2003 for certain shareholders under the two July 2003 private placements, as identified in the Form F-3 filed with the SEC on October 20, 2003; 11,345,358 shares and shares underlying warrants registered in January 2004 under the first Form F-3 filed with the SEC on January 6, 2004 relating to certain shareholders who participated in the convertible loan transaction of January 29, 2003, as amended on March 28, 2003, May 15, 2003 and November 18, 2003; 780,000 Ordinary Shares, representing 130% of the 600,000 shares underlying warrants registered on January 20, 2004 under the second Form F-3 filed with the SEC on January 6, 2004 relating to certain shareholders under the convertible loan transaction of November 26, 2003, as amended on May 18, 2004 and October 31, 2004; 8,467,114 shares and shares underlying warrants registered on July 15, 2004 for certain shareholders under the private placement of May 18, 2004, as identified in the Form F-3 filed with the SEC on July 1, 2004 (included in this figure is 130% of the 2,565,793 warrants issued under the stated transaction); and 2,340,000 Ordinary Shares, representing 130% of the 1,800,000 Ordinary Shares issuable upon conversion of 900,000 Series A Preferred Shares issued to certain shareholders under the Redemption, Amendment and Exchange Agreement of October 31, 2004 and registered on February 9, 2005 under a Form F-3 filed with the SEC on January 10, 2005; and 12,760,000 Ordinary Shares underlying 6,380,000 Series A Preferred Shares registered on February 15, 2005 under a Form F-3 filed with the SEC on January 31, 2005 for certain shareholders pursuant to the Securities Purchase Agreement of October 31, 2004.

In addition, 6,000,000 Ordinary Shares issued and 3,000,000 Ordinary Shares issuable upon exercise for warrants under the Securities Purchase Agreement of October 2, 2005, are included for registration under the Form F-3 filed in or about January 2006.

Apart from the Ordinary Shares and Ordinary Shares underlying warrants issued under the Securities Purchase Agreement of October 2, 2005, the above described shareholdings 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. The 9,000,000 Ordinary Shares issued and issuable upon exercise for warrants under the Securities Purchase Agreement of October 2, 2005 will also be freely tradable without restriction under this prospectus upon the SEC ruling that the Form F-3 is effective, unless otherwise indicated in the related prospectus supplement or to the extent held by affiliates.

We have 3,684,211 shares remaining under a shelf Registration Statement on file with and previously declared effective by the SEC. All of the shares thereunder would be freely tradable as and when issued if the Registration Statement were to continue to meet SEC requirements relating to its effectiveness. The Company has no present intention of utilizing this shelf Registration Statement.

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 5,000,000 Ordinary Shares under the Company's employee stock option plans, 250,000 under the Company's non-employee director stock option plan and 150,000 Ordinary Shares under the Company's Employee Stock Purchase Plan. On July 20, 2001, the Company filed a Form S-8 Registration Statement to register: an additional 250,000 Ordinary Shares under the Company's non-employee 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. On July 27, 2004, the Company filed a Form S-8 Registration Statement to register an additional 6,460,000 Ordinary Shares under the Company's employee stock option plans and an additional 1,790,000 Ordinary Shares under the Company's non-employee director stock option plan.

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The obligations of the Company to employees under the Wingra plan ended with the Company's sale of Wingra in early 2002. The Employee Stock Purchase Plan was terminated in late 2001, with the remaining unsold 56,323 Ordinary Shares deregistered by way of a post-effective amendment to Form S-8 filed on June 25, 2004.

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 18,358,644 options issued in the past, as of November 15, 2005 there are 9,148,437 options outstanding, with 4,798,911 option shares being vested and unexercised, 2,475,269 options having been exercised and 6,734,938 options having been cancelled. Of the outstanding options, 601,390 options priced at \$0.0125 remain outstanding and exercisable, with 568,108 being fully vested.

Warrants and Conversion Rights of Series A Preferred Shares

Please see the section above entitled "Freely Tradable Shares Registered Shares", as well as our annual report on Form 20-F for 2004 filed with the SEC on June 16, 2005 for detail relating to outstanding warrants and conversion rights granted in the past by the Company.

As of the date of this prospectus, only conversion rights pertaining to Series A Preferred Shares remain outstanding. Since September 15, 2005, each outstanding Series A Preferred Share may be converted into two Ordinary Shares. A full description of the rights, powers and authorities of Series A Preferred Shares can be found in the Amended and Restated Articles of Association attached to the Company's Proxy Statement filed with the SEC on Form 6-K on November 12, 2004.

PLAN OF DISTRIBUTION

We are registering the Ordinary Shares issued and issuable upon exercise of warrants and conversion of Series A Preferred Shares in order to permit the resale of these Ordinary Shares by the holders of the Ordinary Shares, convertible Series A Preferred Shares and the warrants from time to time after the date of this prospectus. Warrants generally are exercisable within five years of the date of issuance. 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,

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;

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- broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- 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 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 convertible Series A Preferred Shares, 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 securityholder 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 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

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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 agreements, as detailed below, including, without limitation, Securities and Exchange Commission filing fees and certain expenses of compliance with state securities or "blue sky" laws; provided, however, that a selling securityholder 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

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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 securityholder 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, and our legal and accounting fees. We estimate these expenses to be approximately \$28,302, which include the following categories of expenses:

SEC registration fee	\$	1,002
Blue Sky filing fees		300
Printing and engraving expenses		0
Legal fees and expenses		20,000
Accounting fees and expenses		5,000
Transfer agent and registrar fees and expenses		0
Miscellaneous expenses		2,000
		<hr/>
Total	\$	28,302
		<hr/>

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 own in the aggregate 15,000 Ordinary Shares of the Company.

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, 2004, have been audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, independent registered public accounting firm, as set forth in their report thereon included therein, and incorporated herein by reference. 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

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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.

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

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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, 2004;
- (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;
- (c) The description of our Series A Preferred Shares contained in the Amended and Restated Articles of Association of the Company attached to Proxy Statement filed with the SEC on Form 6-K on November 12, 2004;
- (d) The terms of the Securities Purchase Agreement of October 2, 2005 contained in the Form 6-K filed with the SEC on October 11, 2005, as amended in the Form 6-K filed on November 16, 2005; and
- (e) Our second and third quarter 2005 financial results included on Forms 6-K filed by the Company with the SEC on August 11, 2005 and November 16, 2005, respectively.

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,
- 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 its enforcement is likely to prejudice the sovereignty or security of the State of Israel.

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An Israeli court also will not declare a foreign judgment enforceable if:

- the judgment was obtained by fraud,
- there was no due process,
- the judgment was rendered by a court not competent to render it according to the laws of private international law in Israel,
- 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
- 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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FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED BALANCE SHEETS**(USD in thousands)**

	September 30, 2005 (Unaudited)	December 31, 2004*
	<u> </u>	<u> </u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,495	\$ 4,149
Trade receivables	330	97*
Prepaid expenses and other accounts receivable	163	111
	<u> </u>	<u> </u>
Total current assets	3,988	4,357
	<u> </u>	<u> </u>
Long-term lease deposits	22	53
Severance pay fund	518	484
Investment in affiliate	86	248
Property, equipment and other assets, net	394	337
	<u> </u>	<u> </u>
	\$ 5,008	\$ 5,479
	<u> </u>	<u> </u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	233	245
Employees and payroll accruals	421	462
Deferred revenues	1,834	1,200*
Accrued expenses and other liabilities	266	415
	<u> </u>	<u> </u>
Total current liabilities	2,754	2,322
	<u> </u>	<u> </u>
Accrued severance pay	589	564
	<u> </u>	<u> </u>
Shareholders' Equity		
Convertible Series A Preferred Shares nominal value NIS 0.05 par value Authorized : 8,280,000 as of September 30, 2005 (unaudited) and December 31, 2004: issued and outstanding : 6,680,000 and 7,280,000 as of September 30, 2005 (unaudited) and December 31, 2004, respectively; Aggregate liquidation preference of \$6,680 and \$7,280 as of September 30, 2005 (unaudited) and December 31, 2004, respectively	76	83
Ordinary Shares, nominal value NIS 0.05 par value Authorized : 150,700,000 shares as of September 30, 2005 (unaudited) and 150,000,000 shares as of December 31, 2004: issued and outstanding : 47,010,318 and 42,787,902, as of September 30, 2005 (unaudited) and December 31, 2004, respectively	568	520
Additional paid-in capital	170,806	167,784
Accumulated other comprehensive income	26	45
Accumulated deficit	(169,811)	(165,839)
	<u> </u>	<u> </u>

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Total shareholders' equity	1,665	2,593
	<u> </u>	<u> </u>
	\$ 5,008	\$ 5,479
	<u> </u>	<u> </u>

* - reclassified to conform to current period presentation

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(USD in thousands, except share and per share data)

	Nine Months Ended Sept. 30, 2005	Nine Months Ended Sept. 30, 2004*
	<u> </u>	<u> </u>
Revenues:	\$ 2,668	\$ 933
Cost of revenues:	519	475
	<u> </u>	<u> </u>
Gross profit	2,149	458
	<u> </u>	<u> </u>
Operating expenses:		
Research and development	1,107	1,125*
Sales and marketing	1,874	2,964
General and administrative	1,341	1,313*
Amortization of stock-based employee deferred compensation	—	30
	<u> </u>	<u> </u>
Total operating expenses	4,322	5,432
	<u> </u>	<u> </u>
Operating loss	(2,173)	(4,974)
Interest and other income, net	94	398
Equity — Loss of Imatrix	(142)**	(63)
	<u> </u>	<u> </u>
Net loss	(2,221)	(4,639)
Amortization of beneficial conversion feature relating to convertible Series A Preferred Shares	(1,751)	—
	<u> </u>	<u> </u>
Net loss attributable to ordinary and equivalently participating shareholders	\$ (3,972)	(4,639)
	<u> </u>	<u> </u>
Basic and diluted net loss per share	\$ (0.09)	\$ (0.12)
	<u> </u>	<u> </u>
Weighted average number of shares used in computing basic and diluted net loss per share	45,797	39,080
	<u> </u>	<u> </u>

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* - Certain amounts from prior period have been reclassified to conform to the current presentation

** - Subsequent to the release of the Company's third quarter 2005 financial statements, the Company adjusted the equity loss in Imatrix by an additional \$58,000.

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STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(USD in thousands, except share and per share data)

	Series A Preferred Shares	Series A Preferred Shares Amount	Ordinary Shares	Ordinary Share Amount	Additional paid- in capital
Balance as of December 31, 2004	7,280,000	\$ 83	42,787,902	\$ 520	\$ 167,784
Issuance of shares upon exercise of options and warrants	—	—	3,522,416	41	1,184
Conversion of Series A Preferred shares to Ordinary Shares	(600,000)	(7)	700,000	7	—
Convertible Preferred Shares discount amortization	—	—	—	—	1,751
Issuance of warrants to BOD members	—	—	—	—	87
Foreign currency translation adjustment	—	—	—	—	—
Net loss	—	—	—	—	—
Total comprehensive loss	—	—	—	—	—
Balance as of September 30, 2005	6,680,000	76	47,010,318	\$ 568	\$ 170,806

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	Accumulated other comprehensive loss	Accumulated Deficit	Total comprehensive loss	Total
Balance as of December 31, 2004	\$ 45	\$ (165,839)	—	\$ 2,593
Issuance of shares upon exercise of options and warrants	—	—	—	1,225
Conversion of Series A Preferred shares to Ordinary Shares	—	—	—	—
Convertible Preferred Shares discount amortization	—	(1,751)	—	—
Issuance of warrants to BOD members	—	—	—	87
Foreign currency translation adjustment	(19)	—	(19)	(19)
Net loss	—	(2,221)	(2,221)	(2,221)

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Total comprehensive loss	—	—	(2,240)	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance as of September 30, 2005	\$ 26	\$ (169,811)	—\$ 1,665	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**(USD in thousands)**

	Nine months ended Sept. 30, 2005	Nine months ended Sept. 30, 2004
Cash flows from operating activities:		
Net loss	\$ (2,221)	\$ (4,639)
Adjustments to reconcile net loss to net cash used in Operating activities:		
Depreciation	101	340
Amortization of deferred stock-based employee deferred compensation and warrants issued for services received	87	82
Amortization of convertible loan discount, beneficial conversion feature and warrants fair value	—	(763)
Equity in loss of affiliate	142	63
Changes in assets and liabilities:		
Trade receivables	(233)	40
Prepaid expenses and other accounts receivable	(20)	(61)
Accounts payable	(12)	(125)
Employee and payroll accruals, accrued expenses and other liabilities	(190)	160
Deferred revenues	634	905
Accrued severance pay, net	(9)	11
Net cash used in operating activities	(1,721)	(3,987)
Cash flows from investing activities:		
Purchase of property, equipment and other assets	(158)	(151)
Net cash used in investing activities	(158)	(151)
Cash flows from financing activities:		
Repayment of note receivable by shareholder	—	45
Proceeds from issuance of convertible loan	—	1,455
Deferred charges related to convertible loan	—	87
Proceeds from conversion of shares, net	1,225	3,533
Net cash provided by financing activities	1,225	5,120
(Decrease) increase in cash and cash equivalents	(654)	982
Cash and cash equivalents at the beginning of the period	4,149	4,125
Cash and cash equivalents at the end of the period	\$ 3,495	\$ 5,107
Supplemental disclosure		
Non-cash transaction		
Investment in affiliate - foreign currency translation adjustment	\$ 20	\$ 53

Amortization of beneficial conversion feature relating to convertible series A Preferred Shares	\$	1,751	\$	—
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Notes to Condensed Consolidated Financial Statements
(US dollars in thousands, except share and per share data)

NOTE 1: GENERAL

a. Commtouch Software Ltd. (Commtouch , the Company) was incorporated under the laws of Israel in 1991. The Company and its subsidiary (Commtouch Inc.) develop and provide email anti-spam solutions to enterprises. During 2005 and 2004, the Company's business was to develop and sell, through a variety of third party distribution channels, anti-spam solutions to various customers, and during 2005, the Company also began selling its anti-virus solution. The Company expects that it will continue to be dependent upon third party distribution channels for a significant portion of its revenues, which are expected to be derived from sales of the Company's anti-spam and anti-virus solutions.

For the nine-months ended September 30, 2005 and 2004, 20.71% and 33.57%, respectively, of the revenues were derived from one customer.

b. Basis of preparation:

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-months ended September 30, 2005, are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2005.

The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant Company's annual report on Form 20-F for the year ended December 31, 2004.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

a. Use of Estimates:

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

b. Recently Issued Accounting Pronouncements:

Share - Based Payment

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("Statement 123(R)"), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Statement 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

The Company expects to adopt Statement 123(R) in the fiscal year commencing January 1, 2006.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

- a) A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.
- b) A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 (SAB 107) to give guidance on implementation of SFAS 123(R), which the Company plans to consider when implementing SFAS 123(R).

The Company is still in the process of evaluating the method it will use.

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Notes to Condensed Consolidated Financial Statements
(US dollars in thousands, except share and per share data)

As permitted by Statement 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. In addition, non-compensatory plans under APB 25 will be considered compensatory for FAS 123(R) purposes. Accordingly, the adoption of Statement 123(R)'s fair value method will have a significant impact on the Company results of operations. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net loss and loss per share in Note 3 to the consolidated financial statements.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB No. 20 and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20 Accounting Changes, previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This statement will become effective for our Company on January 1, 2006. The Company does not believe that the adoption of SFAS No. 154 will have a material impact on our consolidated financial statements.

NOTE 3: STOCK-BASED COMPENSATION

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The Company has elected to follow Accounting Principles Board Opinion No. 25 (APB 25) Accounting for Stock Issued to Employees and FASB Interpretation No. 44 Accounting for Certain Transactions Involving Stock Compensation, (FIN 44) in accounting for its employee stock option plans. Under APB 25, when the exercise price of the Company's stock options equals or is above the market value of the underlying stock on the date of grant, no compensation expense is recognized.

As at the balance sheet date, the Company continues to apply APB 25. The Company applies the disclosure requirements SFAS 148, Accounting for Stock Based Compensation Transition and Disclosure - an amendment of FASB Statement No. 123 (SFAS 148). SFAS 148 requires new disclosures about the ramp-up effect of stock-based employee compensation on reported results. The Statement also requires that those effects be disclosed more prominently by specifying the form, content, and location of those disclosures. Pro forma information (unaudited) under SFAS 123 is as follows:

	Nine months ended Sept. 30, 2005	Nine months ended Sept. 30, 2004*
	<u> </u>	<u> </u>
Net loss as reported	\$ (3,914)	\$ (4,639)
Add:		
Stock based compensation expense included in the determination of net loss, as reported	—	30
Deduct:		
Stock based compensation expense determined under fair value method for all awards	<u>(316)</u>	<u>(446)</u>
Pro forma net loss	\$ (4,230)	\$ (5,055)
Pro forma basic and diluted net loss per share	<u>\$ (0.09)</u>	<u>\$ (0.13)</u>

*Revised

The Company applies SFAS 123 and Emerging Issues Task Force 96-18 Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services (EITF 96-18) with respect to options issued to non-employees. SFAS 123 requires use of an option valuation model to measure the fair value of these options at the measurement date. In accounting for warrants granted to those other than employees, the Company applied the provisions of SFAS No. 123, and EITF 96-18. The fair value of these warrants was estimated at the measurement date, using the Black-Scholes option-pricing model.

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Notes to Condensed Consolidated Financial Statements (US dollars in thousands, except share and per share data)

NOTE 4: GEOGRAPHIC INFORMATION

The Company conducts its business on the basis of one reportable segment (see Note 1 for brief description of the Company's business).

Revenues from external customers (unaudited):

Nine months ended Sept. 30,	Nine months ended Sept. 30,
--	--

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	<u>2005</u>	<u>2004</u>
Israel	\$ 265	\$ 113
U.S.A	2,137	777
Europe	190	20
Japan	76	23
	<u>\$ 2,668</u>	<u>\$ 933</u>

The Company's long-lived assets are as follows:

	<u>Nine months ended Sept. 30, 2005 (unaudited)</u>	<u>Year ended December 31, 2004</u>
Israel	\$ 220	\$ 247
U.S.A	174	90
	<u>\$ 394</u>	<u>\$ 337</u>

NOTE 5: LOSS PER SHARE:

The following table sets forth the computation of basic and diluted net loss per share:

1. Numerator:

	<u>Nine months ended Sept. 30,</u>	
	<u>2005</u>	<u>2004</u>
	<u>Unaudited</u>	
Numerator for basic and diluted loss per share		
Numerator for basic and diluted loss available to Ordinary shareholders	\$ (3,972)	\$ (4,639)
	<u> </u>	<u> </u>

2. Denominator (in thousands):

Denominator for basic and diluted loss per share – Weighted average number of shares	45,797	39,080
	<u> </u>	<u> </u>

All outstanding stock options and warrants have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for all periods presented. The weighted average number of shares related to outstanding options and warrants excluded from the calculations of diluted net loss per share were 16,901,269 and 15,047,899 for the nine-months ended September 30, 2005 and September 30, 2004, respectively.

NOTE 6: COMMITMENTS AND CONTINGENCIES

a. Operating Leases:

The Company leases its facility in Israel under an operating lease agreement expiring on November 30, 2006.

The subsidiary company leases its facility in the US under operating lease agreement expiring on August 31, 2006.

Annual minimum future lease payments due under the above agreements, at the exchange rate in effect on September 30, 2005, are approximately as follows:

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Notes to Condensed Consolidated Financial Statements
(US dollars in thousands, except share and per share data)

Three months ended December 31, 2005	\$	65
2006		136
2007		8
		8
	\$	209

b. Royalties:

The Company is committed to pay royalties of 3% to 5% to the government of Israel on proceeds from sales of products resulting from the government funded research and development projects, up to an amount equal to 100% of the grants received by the Company, linked to the dollar and bearing interest at an annual rate of LIBOR. As of January 17, 2006, the Company does not believe that there are royalties due and owing to the government of Israel.

NOTE 7: SUBSEQUENT EVENTS

On October 2, 2005, the Company entered into a definitive agreement for the private placement of 6,000,000 Ordinary Shares of the Company at \$0.50 per share for gross proceeds to the Company of \$3,000.

The investors also received two sets of warrants, each representing an option to purchase up to 1,500,000 Ordinary Shares, with one set exercisable within nine months at \$0.50 per share and the other set exercisable within five years at \$0.65 per share.

In accordance with EITF 00-19, the warrants will be classified as permanent equity. If at any time payment of liquidated damages becomes probable, the Company will recognize a liability, and a charge to expense, for the probable damages in accordance FASB Statement No. 5.

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47,194,489 Ordinary Shares

COMMTOUCH SOFTWARE LTD.

PROSPECTUS

_____, 2006

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 as a result of the breach of his duty of care to the company or to another person, or as a result of the breach of his fiduciary duty to the company, to the extent that he acted in good 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 committed in connection with his serving as an office holder. Moreover, subject to the provisions of the Israel Companies Law, a company is entitled retroactively to indemnify any office holder, or provide a prior undertaking to indemnify an office holder, where such prior undertaking is limited to categories of events that the board of directors believes are foreseeable in light of the company's activities on the date of grant of the undertaking to indemnify, and to an amount or in accordance with guidelines determined by the board of directors to be reasonable in the circumstances (and such undertaking includes the categories of events that the board of directors believes are foreseeable in light of the company's activities on the date of grant of the undertaking to indemnify and to an amount or in accordance with guidelines determined by the board of directors to be reasonable in the circumstances), for any of the following events:

- a) monetary liability imposed on an office holder in favor of a third party in a judgment, including a settlement or an arbitral award confirmed by a court, for an act that such office holder performed by virtue of his being an office holder of the company;
- b) reasonable legal costs, including attorney's fees, expended by an office holder as a result of an investigation or proceeding instituted against the office holder by a competent authority, provided that such investigation or proceeding concludes without the filing of an indictment against the office holder and either (A) no financial liability was imposed on the office holder in lieu of criminal proceedings, or (B) financial liability was imposed on the office holder in lieu of criminal proceedings but the alleged criminal offense does not require proof of criminal intent; and
- c) reasonable costs of litigation, including attorney's fees, expended by an office holder or for which an office holder has been charged by a court, in an action brought against the office holder by or on behalf of the company or a third party, or in a criminal action in which an office holder was found innocent, or in a criminal offense in which an office holder was convicted and in which a proof of criminal intent is not required.

Israeli law also allows a company, if permitted by its articles of association, to exculpate an office holder in advance, in whole or in part, from liability for damages sustained by a breach of duty of care to the company.

The term "office holder" of a company includes any person who, either formally or in substance, serves as a director, general manager or chief executive officer, or other executive officer who reports directly to the general manager or chief executive officer of a company.

Our Amended and Restated Articles of Association allow us to insure, indemnify and exculpate office holders to the fullest extent permitted by law provided such insurance, indemnification or exculpation 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. In March 2005, the Israel Companies Law pertaining to indemnification of directors was amended. The two principal changes made by the amendment were to allow indemnification in connection with regulatory investigations and proceedings, and to require that a company's board of directors determine the appropriateness of the ceiling on an advance undertaking to indemnify in view of the specific company's activities. In light of the cumulative effect of the changes to these provisions since the adoption of the insurance, indemnification and exculpation provisions in the Company's Amended and Restated Articles of Association, the Company sought and received shareholder approval at the annual meeting of December 30, 2005 to amend the provisions of the Amended and Restated Articles of Association to more accurately reflect the current provisions of the Israel Companies Law.

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.

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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 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.

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 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

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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 January 25, 2006.

COMMTOUCH SOFTWARE LTD.

By: /s/ DEVYANI PATEL

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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ GIDEON MANTEL*</u>	Chief Executive Officer and Director	January 19, 2006
Gideon Mantel	(Principal Executive Officer)	
<u>/s/ DEVYANI PATEL*</u>	Vice President, Finance	January 19, 2006
Devyani Patel	(Principal Financial and Accounting Officer)	
<u>/s/ AVIV RAIZ*</u>	Director	January 19, 2006

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Aviv Raiz

/s/ AMIR LEV*

Director

January 19, 2006

Amir Lev

/s/ OFER SEGEV*

Director

January 19, 2006

Ofer Segev

/s/ NAHUM SHARFMAN*

Director

January 19, 2006

Nahum Sharfman

/s/ LLOYD E. SHEFSY*

Director

January 19, 2006

Lloyd E. Shefsky

/s/ ORNA BERRY*

Director

January 19, 2006

Orna Berry

*/s/ DEVYANI PATEL

*Individually and as Attorney-in-fact and Authorized U.S. Representative

January 19, 2006

Devyani Patel

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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 October 2, 2005 and forms of warrants relating thereto, by and between Commtouch Software Ltd. and each Buyer thereto, incorporated by reference to Exhibit 99.2 to Report of Foreign Private Issuer on Form 6-K filed for the month of November 2005, and Exhibits 99.5 and 99.6 to Report of Foreign Private Issuer on Form 6-K for the month of October 2005.