

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 12, 1999

REGISTRATION NO. 333-78531

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 5

TO

FORM F-1
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)

7389
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

NOT APPLICABLE
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

10 TECHNOLOGY AVENUE
EIN VERED 40696, ISRAEL
011-972-9-796-1053
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

C/O COMMTouch SOFTWARE INC.
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:

As soon as practicable after the Registration Statement becomes effective.

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 this Form is a post-effective amendment filed pursuant to Rule 462(d) 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.

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

SUBJECT TO COMPLETION, DATED JULY 12, 1999

COMMTOUCH SOFTWARE LTD.

3,000,000 ORDINARY SHARES

LOGO

\$ PER SHARE

- CommTouch Software Ltd. is offering 3,000,000 of its ordinary shares.
- We anticipate that the initial public offering price will be between \$15.00 and \$17.00 per share.
- This is our initial public offering and no public market currently exists for our shares.
- Proposed trading symbol: Nasdaq National Market -- CTCH.

THIS INVESTMENT INVOLVES RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 5.

	PER SHARE	TOTAL
	-----	-----
Public Offering Price.....	\$	\$
Underwriting Discounts and Commissions.....	\$	\$
Proceeds to CommTouch.....	\$	\$

The underwriters have a 30 day option to purchase up to 450,000 additional ordinary shares from us to cover over-allotments, if any.

Upon the sale of the shares in the initial public offering, CommTouch will sell an additional 896,057 shares to Go2Net, Inc. and an additional 448,029 shares to Vulcan Ventures, Incorporated in a concurrent private placement at a price equal to the initial public offering price less the underwriting discount. In addition, a warrant will be issued to Go2Net, Inc. to purchase 1,136,000 ordinary shares at an exercise price of \$12.80 per share.

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

The Israel Securities Authority has granted CommTouch an exemption from the obligation to publish an Israeli prospectus relating to this offering. This exemption shall not be construed as a determination that this prospectus is truthful or complete or as an expression of opinion as to the securities offered.

U.S. Bancorp Piper Jaffray

Prudential Securities

Warburg Dillon Read LLC

THE DATE OF THIS PROSPECTUS IS JULY , 1999.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, ORDINARY SHARES ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF OUR ORDINARY SHARES.

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SUMMARY

The items in the following summary are described in more detail later in this prospectus. This summary provides an overview of selected information and does not contain all the information you should consider in making an investment. Therefore, you should also read the more detailed information set out in this prospectus, including the Consolidated Financial Statements and the Notes thereto.

COMMTOUCH

We are a leading global provider of email and other messaging services. Our flexible and highly customizable solutions enable us to satisfy the different email and messaging needs of a wide range of business partners, including websites of all sizes and businesses worldwide. We provide a full-featured, branded Web-based email service that enhances online brand image, promotes website usage and creates the opportunity to generate additional revenues from advertising and direct marketing online. For businesses, we provide email and communication services to employees and online customers, thereby increasing communication, brand awareness and revenue opportunities.

Email is one of the most widely used applications on the Internet and has become a significant communications medium. International Data Corporation, or IDC, projects that email traffic in the United States will increase from 1.2 billion messages per day in 1997 to 8.0 billion messages per day in 2002. Further, Web-based email, which is email accessed over the Internet using a browser program, is one of the fastest growing categories of email. With the dramatic growth of international Internet usage, websites and businesses worldwide are seeking to differentiate themselves online.

We have been providing our Web-based email and other messaging services since January 1998. As of May 16, 1999, we had over 100 business partners offering our Web-based email from their sites. Our business partners include Excite, LookSmart, FortuneCity, Talk City and Nippon Telephone and Telegraph. Through our business partners' sites we serve approximately 4.5 million emailboxes. In November 1998, we launched our ZapZone Network service, which enables sites to provide email to their end users at no cost. As of May 16, 1999, we had registered approximately 75,000 sites through the ZapZone Network service, and were serving approximately 480,000 ZapZone Network emailboxes. Our comprehensive email and messaging services offer the following benefits:

- Extensive email features. Our services are easy to use, and include a broad set of email capabilities.
- Ability to support hundreds of millions of emailboxes. We can support hundreds of millions of emailboxes across millions of domains while maintaining a highly reliable service.
- Customization. Our business partners use our proprietary customization tool to make the look and feel of their Web-based email interface consistent with their own brand image.
- Increased website usage. Our services increase the frequency and duration of users' visits to our partners' websites.
- Online marketing capabilities. Our business partners and third parties selling goods and services online can leverage our services and the demographic information of our end users to conduct one-to-one direct marketing and targeted advertising campaigns.
- Rapidly deployable and cost-effective solutions. Our solutions can be quickly implemented and can save our partners the significant costs of developing and maintaining an email service in-house.
- Extensive Language Capabilities. Our email services are available in 14 languages. Additionally, we can support more than one language on any of our business partners' websites.

OFFICE LOCATION

Our principal executive offices are located at 10 Technology Avenue, Ein Vered 40696, Israel, where our telephone number is 011-972-9-796-3445, and 3945 Freedom Circle, Santa Clara, California 95054, where our telephone number is

(408) 653-4330. Our website addresses are www.commtouch.com, www.zzn.com and www.prontomail.com. The information contained on our websites is not a part of this prospectus.

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THE OFFERING

Ordinary shares offered..... 3,000,000 shares

Net exercise of outstanding warrants..... 362,809

Private Placement

Ordinary shares offered to Go2Net,
Inc..... 896,057

Ordinary shares offered to Vulcan
Ventures..... 448,029

Net exercise of warrants offered to
Go2Net..... 227,200

Ordinary shares to be outstanding after
the public offering and the private
placement..... 14,192,215 shares

Use of Proceeds..... Expansion of sales and marketing
activities; capital expenditures;
expansion of research and
development activities; expansion
of international operations;
working capital and other general
corporate purposes. See "Use of
Proceeds."

Proposed Nasdaq National Market Symbol.... CTCH

Except as set forth in the Consolidated Financial Statements included as part of this prospectus and as otherwise specified, all information in this prospectus (including the information set forth above regarding the ordinary shares offered and the ordinary shares to be outstanding after the offering) is based on the number of shares outstanding as of March 31, 1999 and:

- assumes a price to public of \$16.00 per share and sale of 1,344,206 ordinary shares to Go2Net and Vulcan Ventures in a private placement concurrent with the offering at an assumed private placement price of \$14.88 per share,
- assumes no exercise of the underwriters' over-allotment option,
- gives effect to the subsequent issuance of 42,081 Series D Convertible Preferred Shares,
- gives effect to a 20-for-one split of the ordinary shares to be effected prior to the offering,
- gives effect to the conversion of each of CommTouch's convertible preferred shares into 20 ordinary shares upon the closing of the offering,
- assumes the net exercise of outstanding in-the-money warrants as of March 31, 1999 to purchase 405,940 ordinary shares at a weighted average exercise price of \$1.70 per share, of which warrants to purchase 277,460 shares expire upon the closing of this offering if not exercised,

- assumes the net exercise of an in-the-money warrant to purchase 1,136,000 ordinary shares to be issued to Go2Net at an exercise price of \$12.80 per share subject to adjustment as set forth in the warrant.

- with respect to financial information, is reported in U.S. dollars,

and does not include:

- 694,860 ordinary shares issuable upon exercise of outstanding options under our stock option plans and stock option agreements as of March 31, 1999 at a weighted average exercise price of \$1.25 per share,
- 3,642,460 ordinary shares available for future grant or issuance under our stock option plans as of June 8, 1999,
- 215,000 ordinary shares issuable upon exercise of options granted to officers and directors after March 31, 1999 at a weighted average exercise price of \$15.76 per share and

SUMMARY CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following tables set forth our summary consolidated financial data. The information set forth for the three months ended March 31, 1999 is unaudited. You should read the following information together with our Consolidated Financial Statements and the Notes thereto beginning on page F-1 of this prospectus, the information under "Selected Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." See Note 1 of the Notes to our Consolidated Financial Statements for an explanation of the weighted average number of shares used in computing per-share data.

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1996	1997	1998	1998	1999

(UNAUDITED)

CONSOLIDATED STATEMENT OF OPERATIONS DATA:

Revenues:					
Email services.....	\$ --	\$ --	\$ 389	\$ 32	\$ 346
Software licenses, maintenance and services.....	3,134	899	--	--	--
Total revenues.....	3,134	899	389	32	346
Operating loss.....	(1,237)	(3,405)	(4,025)	(892)	(2,040)
Net loss.....	(1,282)	(3,473)	(4,351)	(919)	(2,311)
Net loss per share -- basic and diluted.....	(0.66)	(2.40)	(3.00)	(0.63)	(1.50)
Weighted average number of shares -- basic and diluted.....	1,934	1,450	1,450	1,450	1,546
Pro forma net loss per share -- basic and diluted (unaudited).....			\$ (0.78)		\$ (0.32)
Pro forma weighted average number of shares -- basic and diluted (unaudited).....			5,594		7,313

The following data is presented:

- On an actual basis.
- On a pro forma basis to give effect to (1) the subsequent issuance of 42,081 Series D Convertible Preferred Shares and (2) the automatic conversion of all of CommTouch's convertible preferred shares into 7,109,800 ordinary shares upon the closing of this offering.
- On a pro forma as adjusted basis to give effect to (1) the sale of 3,000,000 ordinary shares in this offering, assuming an initial public offering price of \$16.00 per share and (2) the sale in the private placement of 1,344,086 ordinary shares at \$14.88 per share, resulting in

aggregate net cash proceeds of approximately \$61.4 million from the public offering and the private placement.

MARCH 31, 1999

	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(UNAUDITED)		
CONSOLIDATED BALANCE SHEET DATA:			
Cash and cash equivalents.....	\$ 3,226	\$ 16,331	\$77,741
Working capital.....	1,418	14,523	75,933
Total assets.....	6,025	19,130	86,390
Long-term liabilities.....	560	560	560
Shareholders' equity.....	2,807	15,912	83,172

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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.

RISKS RELATING TO THE COMPANY

BECAUSE WE HAVE A LIMITED OPERATING HISTORY AS A WEB-BASED EMAIL SERVICE PROVIDER, IT IS DIFFICULT TO EVALUATE OUR PROSPECTS

We commenced operations in 1991, but we began commercially selling Web-based email services only in 1998 after changing our strategic focus from the sale and service of stand-alone email client software products for mainframe and personal computers. This change required us to adjust our business processes and to restructure CommTouch to become a Web-based email service provider. Therefore, we have only a limited operating history as a provider of Web-based email services upon which you can evaluate our business and prospects.

WE HAVE A HISTORY OF LOSSES AND MAY NEVER ACHIEVE PROFITABILITY

We incurred net losses of approximately \$1.3 million in 1996, \$3.5 million in 1997 and \$4.4 million in 1998 and \$2.3 million in the three months ended March 31, 1999. As of March 31, 1999, we had an accumulated deficit of approximately \$14.0 million. We have not achieved profitability in any period, and we expect to continue to incur net losses for the foreseeable future.

We have invested heavily in technology and infrastructure development. We expect to continue to spend substantial financial and other resources on developing and introducing new service offerings and expanding our sales and marketing organizations, strategic relationships and operating infrastructure. We expect that our expenses will continue to increase in absolute dollars. If our revenues do not correspondingly increase, our operating results and financial condition will be negatively affected. We may never attain sufficient revenues to achieve profitability. If we do achieve profitability, we may not sustain or increase profitability in the future. This may, in turn, cause our stock price to decline.

WE ARE ENTERING INTO A STRATEGIC ALLIANCE RELATIONSHIP WITH GO2NET PURSUANT TO WHICH WE ARE ISSUING A WARRANT TO GO2NET WHICH WILL DILUTE OUR SHAREHOLDERS, BUT WE MAY NOT REALIZE SUBSTANTIAL REVENUES OR OTHER BUSINESS BENEFITS FROM THIS TRANSACTION

We have negotiated a strategic alliance transaction with Go2Net which will be

entered into simultaneously with the closing of this offering. Pursuant to this transaction, we will enter into a Customized Web-Based Email Service Agreement with Go2Net pursuant to which we will share revenues from advertising and premium services offered to Go2Net's end-users through our email service. The terms of this agreement are substantially the same as our commercial agreements with other business partners except that we have agreed to share a materially greater portion of our advertising revenues with Go2Net than we are sharing under other similar agreements. As part of this transaction, we will issue to Go2Net a warrant to purchase up to 1,136,000 ordinary shares at an exercise price of \$12.80 per share. This warrant will be exercisable immediately. We have agreed to register these shares with the Securities and Exchange Commission within 180 days after the closing of this offering. This warrant will cause existing investors and investors who purchase shares in this offering immediate and significant dilution. However, we may not realize any revenues or any other business benefits from this strategic alliance transaction with Go2Net because we and Go2Net may not be able to sell significant amounts of advertising and premium services to Go2Net's end-users pursuant to our web-based email services. In the future, we may have to issue in the money warrants to acquire our ordinary shares to business partners who provide us with a large base of potential end users. We may also have to provide these business partners with more favorable commercial terms than we have previously provided to our business partners. The issuance of in the money warrants and the grant of more favorable terms to business partners may further dilute our shareholders, increase our operating loss in the future and cause our stock price to fall.

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OUR FUTURE EMAIL SERVICES REVENUES ARE UNPREDICTABLE AND OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE AND FLUCTUATIONS COULD ADVERSELY AFFECT THE VALUE OF YOUR INVESTMENT

Because we have a limited operating history in the provision of Web-based email services and because of the emerging nature of the markets in which we compete, our revenue is unpredictable. 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 stock price.

A number of factors, many of which are enumerated in this "Risk Factors" section, are likely to cause fluctuations in our operating results. Other factors which may cause such fluctuations include:

- the size, timing and fulfillment of orders for our email services;
- our mix of service offerings, including our ability to successfully implement new services;
- pricing of our services; and
- effectiveness of our customer support.

Because of these factors, 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.

IF THE MARKET FOR OUR WEB-BASED EMAIL SERVICES DOES NOT GROW RAPIDLY, WE WILL FAIL TO GENERATE REVENUES

Our success will depend on the widespread acceptance and use of Web-based email by our customers as a means to increase the value of their services or as a means of communication. The market for Web-based email services is new and rapidly evolving. We cannot estimate the size or growth rate of the potential market for our service offerings. If the market for Web-based email fails to grow or grows more slowly than we currently anticipate, our business will suffer dramatically. Even if that market grows, our service may not achieve broad market acceptance. Since we have only recently introduced our services, we do not have sufficient experience to evaluate whether they will achieve broad market acceptance. Also, because all of our revenue is derived directly or indirectly from our Web-based email solutions, if that market does not grow, our business will likely fail.

EVEN IF OUR EMAIL SERVICES ARE SUCCESSFUL WITH OUR BUSINESS PARTNERS, WE MAY NOT

DERIVE REVENUE FROM THE USERS OF THE EMAILBOXES, WHICH WOULD PREVENT OUR BUSINESS FROM GROWING

Even if our services are a success with our business partners, we will not succeed if we do not derive revenue from the email users that our business partners give us access to. We plan to derive revenue from these email users by selling advertisements that the email users will see, by selling premium email services to the users and by selling access to the email users for direct marketing purposes. If one or more of these revenue sources is not successful, we will not succeed. To date, we have generated little revenue from these potential revenue sources and they may not be successful. Advertisers and direct marketers may not accept email as a means of placing advertisements and conducting direct marketing. Email users may not want to receive direct marketing materials. Also, email users may not want to pay for premium services, especially since some of these services may be obtained elsewhere for free. Additionally, in order for these potential revenue streams to be successful, our business partners will have to successfully market them to their end users who use our emailboxes. Many of these business partners have little or no experience with such marketing and may not be successful at it.

Our ability to generate revenues from the mailbox base that our business partners bring to us also depends on the emailboxes being used on a regular basis. On an ongoing basis, many of our end users will not regularly use their emailboxes, and a significant number will cease using our service each month. For example, approximately 1.1 million of the emailboxes we host were established under a program in which one of our business partners issued emailboxes to all of its users on an unsolicited basis, rather than having the end users register for emailboxes. Accordingly, the figure of 4.5 million emailboxes used throughout

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this prospectus does not necessarily reflect the number of emailboxes from which we will be able to generate revenues.

WE DEPEND ON OUR BUSINESS PARTNER RELATIONSHIPS, WHICH ARE BASED ON RELATIVELY SHORT TERM, NONEXCLUSIVE AGREEMENTS, AND THE LOSS OF ONE OR MORE BUSINESS PARTNERS COULD HARM OUR BUSINESS

Our ability to increase revenues depends upon successful marketing of our services through new and existing business partners. Our agreements with our business partners generally can be terminated for any or for no reason after the first year. The agreements with our business partners are non-exclusive and do not restrict them from introducing competing services. Also, some of our relationships allow termination earlier than one year if we do not provide a specified level of service. Loss of one or a few key business partners to a competitive solution could damage our reputation and hurt our ability to develop new relationships. This could prevent new relationships with business partners as well as with marketing partners. If we fail to develop new relationships or if our business partners terminate or do not renew their contracts with us, our business will suffer, as we will lose potential revenue from the lost business partners and from their underlying base of email users. One of our business partners, Talk City, accounts for 20 percent of the emailboxes we currently host. Another business partner, Excite, accounted for 54 percent of our revenues in 1998.

WE HAVE MANY ESTABLISHED COMPETITORS WHO ARE OFFERING THE SAME OR SIMILAR SERVICES, INCLUDING MICROSOFT, AND WE WILL NOT BE ABLE TO COMPETE EFFECTIVELY AGAINST THEM IF THEY PROVIDE SUPERIOR SERVICES AT BETTER PRICES

The market for Web-based email services is intensely competitive and we expect it to be increasingly competitive. Increased competition could result in pricing pressures, reduced operating margins and loss of market share, any of which could cause our business to suffer. Many of our current and potential competitors have longer operating histories, larger end user bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. These competitors may enter into strategic or commercial relationships with larger, more established and better-financed companies. In addition to competing with companies that develop and maintain in-house services, we compete with email service providers, such as USA.NET, Mail.com and Critical Path, and email software companies, such as Microsoft, Software.com, Inc. and Lotus Development Corporation. Microsoft currently offers free Web-based email through its Hotmail website and has a dominant market share. In

addition, Internet service providers, such as AOL (and its subsidiary, Netscape), provide Web-based email services to a large number of end users.

Some of our competitors provide a variety of Web-oriented services, such as Internet access, browser software, homepage design and hosting, in addition to email. The ability of these competitors to offer a broader suite of complementary services may give them a considerable advantage over us in accessing customers, meeting customer needs and minimizing the effect that performance of a single product will have on their business. Some of our competitors may offer services at or below cost. In the future, as we expand our service offerings, we expect to encounter increased competition in the development and delivery of these services.

IF WE DO NOT EXPAND OUR SALES AND MARKETING ORGANIZATION WE WILL NOT BE ABLE TO INCREASE OUR REVENUES

Our ability to increase our revenues will depend on our ability to successfully expand our sales and marketing organization. The complexity of our Internet messaging services and the emerging nature of the Web-based email market require highly trained sales and marketing personnel to educate prospective business partners regarding the use and benefits of our services. The majority of our sales and marketing personnel have only recently joined CommTouch and have limited experience working together. Our Vice President, Marketing has only worked with us since March 1999. It will take time for these employees to learn how to market our solutions and to be integrated into our sales organization. Some of them may not succeed in making this transition. Additionally, we are beginning to roll out a significant number of services that we have no experience marketing and will rely on these services to produce a substantial portion of our revenues in the future. As a result of these factors, our sales and marketing organization

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may not be able to compete successfully against the bigger and more experienced sales and marketing organizations of our competitors.

WE ARE EXPERIENCING RAPID INTERNAL GROWTH WHICH HAS AND LIKELY WILL STRAIN OUR MANAGEMENT RESOURCES

We recently began to expand our operations rapidly and intend to continue this expansion. The number of our employees increased from 36 on June 30, 1998 to 45 on December 31, 1998 and to 62 on March 31, 1999. This expansion has placed, and is expected to continue to place, a significant strain on our managerial, operational and financial resources. To manage any further growth, we will need to improve or replace our existing operational, customer service and financial systems, procedures and controls.

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, many of whom have worked together for only a short period of time. The loss of the services of any of our senior management or other key personnel, including Gideon Mantel, our Chief Executive Officer, Isabel Maxwell, the President of our subsidiary, and Amir Lev, our Chief Technical Officer, could materially and adversely affect our business. We do not have long-term employment agreements with any of our senior management or other 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.

BECAUSE OUR BUSINESS IS BASED ON COMMUNICATIONS AND MESSAGING SERVICES, WE ARE SUSCEPTIBLE TO SYSTEM INTERRUPTIONS AND CAPACITY CONSTRAINTS, WHICH COULD HARM OUR BUSINESS AND REPUTATION

Our ability to successfully receive and send our end users' email messages and provide acceptable levels of service largely depends on the efficient and uninterrupted operation of our computer and communications hardware and network systems and those of our outsourced hosting service. We do not possess insurance to cover losses caused by unplanned system interruptions and software defects. In the past, we have experienced some interruptions in our email service. We believe that these interruptions will continue to occur from time to time. These interruptions may be due to hardware failures, unsolicited bulk email (also

known as "spam"), operating system failures, inadequate Internet infrastructure capacity, and other mechanical and human causes. We expect to experience occasional, temporary capacity constraints due to sharply increased traffic, which may cause unanticipated system disruptions, slower response times, impaired quality and degradation in levels of customer service. If we experience frequent or long system interruptions that reduce our ability to provide email services, we may have fewer users of our email services. In addition, we have entered into service agreements with some of our business partners that require minimum performance standards. If we fail to meet these standards, our business partners could terminate their relationships with us.

We must continue to expand and adapt our network infrastructure to changing requirements and increasing numbers of end users. The expansion and adaptation of our network infrastructure will require substantial financial, operational and managerial resources. The ability of our network to continue to connect and manage an expanding number of partners, end users and messages at high transmission speeds is unproven and uncertain. We face risks related to our network's ability to operate with higher use levels while maintaining expected performance levels.

WE ARE A RELATIVELY SMALL COMPETITOR IN THE ELECTRONIC MESSAGING INDUSTRY, AND AS A RESULT, WE MAY NOT HAVE THE RESOURCES TO ADAPT TO THE CHANGING TECHNOLOGICAL REQUIREMENTS AND THE SHIFTING CONSUMER PREFERENCES OF OUR INDUSTRY

The Internet messaging industry is characterized by rapid technological change, changes in end user requirements and preferences, and the emergence of new industry standards and practices that could render our existing services and proprietary technology obsolete. Our success depends, in part, on our ability to continually enhance our existing email and messaging services and to develop new services,

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functions and technology that address the increasingly sophisticated and varied needs of our prospective business partners. The development of proprietary technology and necessary service 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 our services to business partner or end user requirements or emerging industry standards. Also, in addition to addressing changing technologies and end user needs, we must also do so more quickly than our competition.

OUR SERVICES MAY BE ADVERSELY AFFECTED BY SOFTWARE DEFECTS, WHICH COULD CAUSE OUR BUSINESS PARTNERS OR END USERS TO STOP USING OUR SERVICES

Our service offerings depend on 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 services or enhancements until after they are deployed. Although we have not experienced any material software defects to date, it is possible that, despite testing by us, defects may exist in the software we use. These defects could cause service interruptions that could damage our reputation or increase our service costs, cause us to lose revenue, delay market acceptance or divert our development resources, any of which could cause our business to suffer. Some of our services are based on software provided by third parties. We have no control over the quality of such software.

WE RELY ON THE INTEGRITY OF OUR NETWORK SECURITY, WHICH MAY BE SUSCEPTIBLE TO BREACHES THAT COULD HARM OUR REPUTATION AND BUSINESS

A fundamental requirement for online communications is the secure transmission of confidential information over public networks. Third parties may attempt to breach our security or that of our business partners. Despite our implementation of third party encryption technology and network security measures, our servers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We may be liable to our business partners and their end users for any breach in our security. Also, such a breach could harm our reputation and consequently our business. We may also be required to expend significant capital and other resources to license encryption technology and additional technologies to protect against security breaches or to alleviate problems caused by any breach. Our failure to prevent security breaches could have a material adverse effect on

our business and operating results. To our knowledge, we have not experienced a security breach of our system.

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 copyrights, service marks, trademarks, trade secrets and similar intellectual property as critical to our success, and rely on trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees and business partners to protect our proprietary rights. Third parties may infringe or misappropriate our copyrights, trademarks and similar proprietary rights. Although we have not filed any patent applications, we may seek to patent certain software or other technology in the future. Any such future patent applications may not be issued with the scope of the claims we seek, or at all. We cannot be certain that our software does not infringe issued patents that may relate to our software products. In addition, because patent applications in the United States are not publicly disclosed until the patent is issued, applications may have been filed which relate to our software products.

Despite our precautions, unauthorized third parties may copy certain portions of our technology or reverse engineer or obtain and use information that we regard as proprietary. End user license provisions protecting against unauthorized use, copying, transfer and disclosure of the licensed program may be unenforceable under the laws of some jurisdictions and foreign countries. 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

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protecting our proprietary rights in the United States or abroad may not be adequate and competitors may independently develop similar technology.

Our ZapZone Network service allows webmasters to select the email service name of their choice (although we reserve the right to eliminate their account or to change their email service name). There is, therefore, the possibility that they will select email service names that may infringe the rights of others. We have received several complaints about ZapZone Network service webmasters' registered email service names and we have referred these complainants directly to the ZapZone Network service subscribers who are allegedly engaging in the infringing activities.

WE MAY HAVE LIABILITY FOR EMAIL CONTENT AND WE MAY NOT HAVE ADEQUATE LIABILITY INSURANCE

As a provider of email services, we face potential liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials transmitted via email. We do not and cannot screen all of the content generated by end users, and we could be exposed to liability with respect to this content. Some foreign governments, such as the government of Germany, have enforced laws and regulations related to content distributed over the Internet that are more strict than those currently in place in the United States. Although we carry general liability insurance, our insurance may not adequately protect us from such claims. Any imposition of liability, particularly liability that is not covered by insurance, or is in excess of insurance coverage, could damage our reputation and hurt our business and operating results, or could result in criminal penalties.

GOVERNMENTAL REGULATION AND LEGAL UNCERTAINTIES COULD IMPAIR THE GROWTH OF THE INTERNET AND DECREASE DEMAND FOR OUR SERVICES OR INCREASE OUR COST OF DOING BUSINESS

There are currently few laws and regulations directly applicable to the Internet and commercial email services. However, a number of laws have been proposed involving the Internet, including laws addressing user privacy, pricing, content, copyright, antitrust, distribution and characteristics and quality of products and services. Further, the growth and development of the market for email may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business 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. This could decrease the demand for our services and increase our cost of doing business, or otherwise harm our business and operating results.

The Federal Trade Commission is considering regulation regarding the collection and use of personal identifying information obtained from individuals, including children, when accessing websites. Such regulation may include disclosure and privacy provisions, and could reduce our ability to engage in direct marketing.

WE MAY NEED ADDITIONAL CAPITAL AND RAISING ADDITIONAL CAPITAL MAY DILUTE EXISTING SHAREHOLDERS

We believe that our existing capital resources, including the anticipated proceeds of this offering and the concurrent private placement of shares to Go2Net and Vulcan Ventures, will enable us to maintain our current and planned operations for at least the next 12 months. However, we may be required to raise additional funds due to unforeseen circumstances. If our capital requirements vary materially from those currently planned, we may require additional financing sooner than anticipated. Such financing may not be available in sufficient amounts or on terms acceptable to us and may cause dilution to existing shareholders. Also, we may raise additional capital in the future by issuing securities that have superior rights and preferences to our ordinary shares. We have issued registration rights for the shares being issued in the private placement and Go2Net's warrant shares. If we are unable to cause a registration statement for these shares to become effective as of the expiration of the 180-day lock-up period, the exercise price for the warrant shares will be reduced to \$10.51 per share. If the exercise price is reduced, upon exercise

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of those warrants our shareholders will experience additional dilution, as more shares will be issued for less consideration.

IF WE OR ANY OF OUR VENDORS DO NOT ADEQUATELY ADDRESS "YEAR 2000" ISSUES, WE MAY INCUR SIGNIFICANT UNANTICIPATED EXPENSES TO REMEDY ANY RESULTING PROBLEMS, AND OUR BUSINESS AND REPUTATION COULD SUFFER

The "Year 2000" issue is the result of computer programs and embedded hardware systems having been developed using two digits rather than four to define the applicable year. These computer programs or hardware that have date-sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations, causing disruptions of operations including, among other things, a temporary inability to process transactions, send invoices or engage in normal business activities. As a result, many companies' computer systems may need to be upgraded or replaced in order to comply with the Year 2000 requirements. We have preliminarily tested our internally developed software and are in the process of revising it to make it Year 2000 compliant. Many of our business partners maintain their Internet operations on commercially available operating systems that may be impacted by Year 2000 complications. In addition, we rely on third-party vendors for certain software and hardware included within our services, which may not be Year 2000 compliant. Where we are aware that such software or hardware is not Year 2000 compliant, we are working with those vendors to address these issues and to ensure that those systems will be Year 2000 compliant. Failure of our internal computer systems or third-party equipment or software, or of systems maintained by our suppliers, to operate properly with regard to the year 2000 and thereafter, could require us to incur significant unanticipated expenses to remedy any problems and could cause system interruptions and loss of data. Any of these events could harm our reputation, business and operating results. We have not yet developed a comprehensive contingency plan to address the issues that could result from Year 2000 complications.

AFTER THE LOCK-UP AGREEMENTS EXPIRE, A SIGNIFICANT NUMBER OF ADDITIONAL SHARES WILL BECOME FREELY TRADABLE, WHICH MAY REDUCE THE PER SHARE TRADING PRICE OF OUR STOCK

After the public offering and the private placement, we will have 14,192,215

ordinary shares outstanding (assuming net exercise of all in-the-money outstanding warrants and the warrant to be issued to Go2Net in the private placement). All the shares sold in this offering will be freely tradable. The remaining 9,258,120 ordinary shares outstanding after this offering are subject to lockup agreements that prohibit the sale of the shares for 180 days after the date of this prospectus. Immediately after the 180-day lockup period, 6,839,948 of the ordinary shares which will be outstanding after the public offering and the private placement will become available for sale. The remaining ordinary shares will become available at various times thereafter upon the expiration of one-year holding periods. Sales of a substantial number of ordinary shares in the public market after this offering or after the expiration of the lockup and holding periods could cause the market price of our ordinary shares to decline.

PURCHASERS OF OUR ORDINARY SHARES WILL SUFFER IMMEDIATE AND SUBSTANTIAL DILUTION

The initial public offering price is expected to be substantially higher than the book value per share of our ordinary shares. Some elements of our market value do not originate from measurable transactions. Therefore, there is not a corresponding rise in "book," or historical cost accounting, value for our rise in market value, if any. Examples of these elements include the perceived growth prospects of our core commercial market, perceived growth prospects of our Web-based email services and our perceived competitive position within the market for Web-based email services. Purchasers of our ordinary shares in this offering will experience immediate dilution of \$10.55 in the pro forma net tangible book value per share of ordinary shares, assuming a public offering price of \$16.00 per share. Purchasers will also experience additional dilution upon the exercise of outstanding stock options.

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OUR DIRECTORS, EXECUTIVE OFFICERS AND PRINCIPAL SHAREHOLDERS WILL BE ABLE TO EXERT SIGNIFICANT INFLUENCE OVER MATTERS REQUIRING SHAREHOLDER APPROVAL AND COULD DELAY OR PREVENT A CHANGE OF CONTROL

After this offering, our directors and affiliates of our directors, our executive officers and our shareholders who currently own over five percent of our ordinary shares will beneficially own approximately 55.2 percent of our outstanding ordinary shares. If they vote together, 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.

Go2Net and Vulcan Ventures will beneficially own approximately 16.8% of our outstanding ordinary shares (assuming exercise of warrants) following the completion of the offering and the private placement. Vulcan Ventures is a 20 percent (but not the largest) shareholder of Go2Net. Accordingly, Go2Net will be able to significantly influence and possibly exercise control over most matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control. In addition, conflict of interest may arise as a consequence of Go2Net's control relationship with us, including:

- conflicts between Go2Net, as our controlling shareholder, and our other shareholders, whose interests may differ with respect to, among other things, our strategic direction or a significant corporate transactions;
- conflicts related to corporate opportunities that could be pursued by us, on the one hand, or by Go2Net, on the other hand; or
- conflicts related to existing or new contractual relationships between us, on the one hand, and Go2Net and its other affiliates, on the other hand.

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 substantially all of our sales currently are being made to customers outside Israel, we are nonetheless directly influenced by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel, or the interruption or curtailment of trade between Israel and its present trading partners, could significantly harm our business, operating results and financial condition.

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980's, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. In addition, Israel and companies doing business with Israel have been the subject of an economic boycott by the Arab countries since Israel's establishment. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, we cannot predict whether or in what manner these problems will be resolved.

In addition, 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. CommTouch has operated effectively under these requirements since its inception. We cannot predict the effect of these obligations on CommTouch in the future.

Inflation in Israel and devaluation of the NIS could impact our financial results. Although Israel has substantially reduced the rates of inflation and devaluation in recent years, they are still relatively high and we could be harmed by inflation or devaluation. If inflation rates in Israel increase again and hurt Israel's

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economy as a whole, our operations and financial condition could suffer. Moreover, non-residents of Israel are subject to income tax on certain income (including cash dividends) derived from sources in Israel. The tax treaty between Israel and the United States provides for a maximum tax of 25 percent on dividends paid to residents of the United States and for withholding at a rate of 15 percent with respect to dividends paid by an Approved Enterprise, as discussed below.

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 prospectus 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 certain 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 Software Inc., our U.S. subsidiary, as our agent to receive service of process in any action against us arising out of this offering. 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 will be payable in Israeli currency.

PROVISIONS OF ISRAELI LAW MAY DELAY, PREVENT OR MAKE DIFFICULT AN ACQUISITION OF COMMTOUCH, WHICH COULD PREVENT A CHANGE OF CONTROL AND THEREFORE DEPRESS THE PRICE OF OUR STOCK

Certain provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult a merger or other acquisition of CommTouch. The Israeli Companies Ordinance, which governs Israeli corporations, does not contain provisions that deal specifically with a merger that allows for

the elimination of minority shareholders. Various provisions that deal with "arrangements" between a company and its shareholders have been used, however, to effect squeeze-out mergers. These generally require that the merger be approved by at least 75 percent of the shareholders present and voting on the proposed merger, at a shareholders meeting that has been called on at least 21 days' advance notice. In addition to shareholder approval, court approval of the merger is required, which entails further delay and the need to obtain a discretionary approval. Alternatively, the acquiror can cause minority shareholders to sell their shares if it acquires at least 90 percent of all outstanding shares (excluding shares held by the acquiror prior to the acquisition) and none of the minority shareholders successfully seeks to block the acquisition in court. The new Israeli Companies Law, which will come into effect on February 1, 2000, does address squeeze-out mergers but does not significantly modify these requirements.

The new Israeli Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the new Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company. Here too there is an exception, if someone else is already a majority shareholder of the company. Since regulations implementing these new rules have not yet been promulgated, we do not know to what extent or how these rules will apply to Israeli companies that are publicly traded outside of Israel.

Finally, Israeli tax law treats certain acquisitions, particularly stock-for-stock swaps between an Israeli company and a foreign company, less favorably than United States tax law. Israeli tax law may, for instance, subject a shareholder who exchanges his CommTouch shares for shares in a foreign corporation to immediate taxation.

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USE OF PROCEEDS

The net proceeds we will receive from

- the sale of the 3,000,000 ordinary shares offered by us, assuming an initial public offering price of \$16.00 per share, after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us (which are estimated to be \$5.8 million, or \$6.3 million if the underwriters' over-allotment option is exercised in full)
- and the sale of 1,344,086 ordinary shares to Go2Net and Vulcan Ventures in a concurrent private placement at an assumed private placement price of \$14.88 per share in the concurrent private placement,

are estimated to be \$61.4 million (\$68.1 million if the underwriters' over-allotment option is exercised in full).

We intend to use the proceeds of this offering for the following:

- expansion of our sales and marketing activities;
- capital expenditures, including purchase of equipment, primarily for our hosting facilities;
- expansion of research and development activities;
- expansion of our international operations; and
- working capital and other general corporate purposes.

The amounts and timing of these expenditures will vary significantly depending on a number of factors, including, but not limited to, the amount of cash generated by our operations and the market response to the introduction of any new service offerings.

In addition, we may use a portion of the net proceeds of this offering to acquire or invest in businesses, products, services or technologies complementary to our current business, through mergers, acquisitions, joint

ventures or otherwise. However, we have no specific agreements or commitments and are not currently engaged in any negotiations with respect to such transactions. Accordingly, our management will retain broad discretion as to the use and allocation of the net proceeds of this offering. Pending the above uses, we intend to invest the net proceeds of this offering in short-term, interest-bearing investment grade securities.

DIVIDEND POLICY

We have never paid cash dividends to our shareholders and we currently do not intend to pay dividends for the foreseeable future. We intend to reinvest earnings in the development and expansion of our business. We may only pay cash dividends in any fiscal year out of profits, as determined under Israeli law. The declaration of any final cash dividend requires shareholder approval. Shareholders may reduce, but not increase, the amount of dividends from the amount proposed by the Board of Directors.

Because of CommTouch's investment programs' Approved Enterprise status, the payment of dividends by CommTouch may subject CommTouch to certain Israeli taxes to which it would not otherwise be subject. The tax exempt income attributable to the Approved Enterprise can be distributed to shareholders without subjecting CommTouch to taxes only upon the complete liquidation of CommTouch. If CommTouch decides to distribute cash dividends out of income that has been exempt from tax, the income out of which the dividend is distributed will be subject to Israeli corporate tax (currently 25%). We have decided to reinvest the amount of tax exempt income derived from our Approved Enterprise and not to distribute such income as dividends. (For a description of our Approved Enterprise status, please see "Israeli Taxation and Investment Programs.")

CAPITALIZATION

The following table sets forth the capitalization of CommTouch as of March 31, 1999:

The following data is presented:

- On an actual basis.
- On a pro forma basis to give effect to (1) the subsequent issuance of 42,081 Series D Convertible Preferred Shares and (2) the automatic conversion of all of CommTouch's convertible preferred shares into 7,109,800 ordinary shares upon the closing of this offering.
- On a pro forma as adjusted basis to give effect to (1) the sale of 3,000,000 ordinary shares in this offering, assuming an initial public offering price of \$16.00 per share and (2) the sale of 1,344,086 ordinary shares to Go2Net and Vulcan Ventures in a concurrent private placement at an assumed private placement price of \$14.88 per share resulting in aggregate net cash proceeds from the private placement of approximately \$19.2 million (3) the issuance of 362,809 ordinary shares, assuming the net exercise of outstanding in-the-money warrants as of March 31, 1999 to purchase 405,940 ordinary shares at a weighted average exercise price of \$1.70 per share, of which warrants to purchase 277,460 shares expire upon the closing of this offering if not exercised (4) the issuance of 227,200 ordinary shares, assuming the net exercise of an in-the-money warrant to purchase 1,136,000 ordinary shares to be issued to Go2Net at an exercise price of \$12.80 per share subject to adjustment as set forth in the warrant.

MARCH 31, 1999

(UNAUDITED)		
(IN THOUSANDS)		

	PRO FORMA	PRO FORMA
ACTUAL	PRO FORMA	AS ADJUSTED

	-----	-----	-----
Long-term liabilities less current portion.....	\$ 560	\$ 560	\$ 560
	-----	-----	-----
Shareholders' equity:			
Convertible Preferred Shares, NIS 1 nominal value; 565,820 shares authorized; 313,409 shares issued and outstanding actual; no shares issued and outstanding pro forma and pro forma as adjusted.....	96	--	--
Ordinary shares, NIS 0.05 par value; 10,683,600 shares authorized, 2,148,320 shares issued and outstanding actual, 9,258,120 shares issued and outstanding pro forma; 14,192,215 shares issued and outstanding, pro forma as adjusted.....	35	142	196
Additional paid-in capital.....	24,910	38,004	105,210
Deferred compensation.....	(7,282)	(7,282)	(7,282)
Notes receivable from shareholders.....	(964)	(964)	(964)
Accumulated deficit.....	(13,988)	(13,988)	(13,988)
	-----	-----	-----
Total shareholders' equity.....	2,807	15,912	83,172
	-----	-----	-----
Total capitalization.....	\$ 3,367	\$ 16,472	\$ 83,732
	=====	=====	=====

The number of ordinary shares to be outstanding after this offering does not include the following:

- 694,860 ordinary shares issuable upon exercise of stock options outstanding under our stock option plans and stock option agreements as of March 31, 1999 at a weighted average exercise price of \$1.25 per share;
- 3,642,460 ordinary shares available for future grant or issuance under our stock option plans as of June 8, 1999;
- 215,000 ordinary shares issuable upon exercise of options granted to officers and directors after March 31, 1999 at a weighted average price of \$15.76 per share; and

DILUTION

Our pro forma net tangible book value as of March 31, 1999 was \$15,912,000 or \$1.72 per ordinary share, after giving effect to the subsequent issuance of 42,081 Series D Convertible Preferred Shares and the receipt of the net proceeds therefrom. Pro forma net tangible book value per share is determined by dividing the amount of our total tangible assets less total liabilities by the number of ordinary shares outstanding at that date, assuming conversion of all outstanding convertible preferred shares into ordinary shares. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of ordinary shares in the offering made hereby and the net tangible book value per ordinary share immediately after the completion of this offering. After giving effect to the sale of 3,000,000 ordinary shares by CommTouch in this offering (at an assumed public offering price of \$16.00 per share and after deducting the underwriting discounts and commissions and our estimated offering expenses) and an estimated 1,344,086 ordinary shares in the aggregate to be sold in the private placement and application of the net proceeds from such sales of approximately \$19.2 million, and an estimated 362,809 ordinary shares issuable upon the net exercise of the outstanding in-the-money warrants to purchase 405,940 ordinary shares at a weighted average exercise price of \$1.70 per share, and assuming an estimated 227,200 ordinary shares issuable upon the net exercise of an in-the-money warrant to purchase 1,136,000 ordinary shares to be issued in the private placement, subject to adjustment as set forth in the warrant the pro forma net tangible book value of CommTouch at March 31, 1999 would have been \$77.3 million, or \$5.45 per share. This represents an immediate increase in pro

forma net tangible book value of \$3.71 per share to the existing shareholder and an immediate dilution of \$10.55 per share to new investors purchasing ordinary shares in this offering. The following table illustrates this per-share dilution:

Assumed initial public offering price per share.....		\$16.00

Pro forma net tangible book value per share as of March 31, 1999.....	\$ 1.72	

Increase in pro forma net tangible book value per share attributable to this offering.....	2.88	

Increase in pro forma net tangible book value per share attributable to the private placement.....	0.85	
Pro forma net tangible book value per share after the offering and private placement.....		5.45

Dilution per share to new investors.....		\$10.55
		=====

The following table summarizes, on a pro forma basis as of March 31, 1999 after giving effect to (1) the subsequent issuance of 42,081 Series D Convertible Preferred Shares and the receipt of the net proceeds therefrom and (2) the automatic conversion of all CommTouch's convertible preferred shares into 7,109,800 ordinary shares upon the closing of this offering, and (3) the total number of ordinary shares purchased from CommTouch, the total consideration paid to CommTouch and the average price per share paid by existing shareholders, by the investors in the private placement and by new investors purchasing shares in this offering (based upon an assumed initial public offering price of \$16.00 per share):

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing shareholders.....	9,258,120	68.1%	\$29,825,000	30.4%	\$ 3.22
Go2Net and Vulcan.....	1,344,086	9.8%	\$20,000,000	20.4%	14.88
New investors.....	3,000,000	22.1%	\$48,000,000	49.2%	16.00
	-----	-----	-----	-----	
Total.....	13,602,206	100.0%	\$97,825,000	100.0%	
	=====	=====	=====	=====	

The foregoing table assumes no exercise of the underwriters' over-allotment option or of any outstanding stock options or warrants after March 31, 1999 and does not reflect underwriting discounts. As of March 31, 1999, there were outstanding options to purchase an aggregate of 694,860 ordinary shares at a weighted average exercise price of \$1.25 per share. To the extent any of these options or warrants are exercised, there will be further dilution to new investors. See Note 9 of the Notes to Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated statement of operations data for the years ended December 31, 1996, 1997 and 1998 and the selected consolidated balance sheet data as of December 31, 1997 and 1998 have been derived from the Consolidated Financial Statements of CommTouch included elsewhere in this prospectus. The selected consolidated statement of operation data for the years ended December 31, 1994 and 1995 and the selected consolidated balance sheet data as of

December 31, 1994, 1995 and 1996 have been derived from the Consolidated Financial Statements of CommTouch not included elsewhere in this prospectus. The selected consolidated statement of operations data for the three months ended March 31, 1998 and 1999 and the consolidated balance sheet data at March 31, 1999 have been derived from unaudited financial statements included elsewhere in this prospectus. The unaudited financial statements include all adjustments, consisting only of normal recurring adjustments, that CommTouch considers necessary for a fair presentation of its financial position at such dates and the results of operations for those periods. Operating results for the three months ended March 31, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. In addition, our historical results are not necessarily indicative of results to be expected for any future period. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the Notes thereto included elsewhere in this prospectus.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1997	1998	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					(UNAUDITED)	
Consolidated Statement of Operations Data:							
Revenues							
Email services.....	\$ --	\$ --	\$ --	\$ --	\$ 389	\$ 32	\$ 346
Software licenses, maintenance and services.....	699	1,733	3,134	899	--	--	--
Total revenues.....	699	1,733	3,134	899	389	32	346
Cost of revenues							
Email services.....	--	--	--	--	569	59	405
Software licenses, maintenance and services.....	109	327	463	165	--	--	--
Total cost of revenues.....	109	327	463	165	569	59	405
Gross profit(loss).....	590	1,406	2,671	734	(180)	(27)	(59)
Operating expenses							
Research and development, net.....	197	463	1,479	1,108	1,149	266	307
Sales and marketing, net.....	956	832	1,965	2,202	2,001	459	481
General and administrative.....	287	369	465	829	604	138	807
Amortization of stock-based employee deferred compensation.....	--	--	--	--	91	2	386
Total operating expenses.....	1,440	1,664	3,908	4,139	3,845	865	1,981
Operating loss.....	(850)	(258)	(1,237)	(3,405)	(4,025)	(892)	(2,040)
Interest and other expense, net.....	(65)	(62)	(45)	(68)	(326)	(27)	(271)
Net loss.....	\$ (915)	\$ (320)	\$ (1,282)	\$ (3,473)	\$ (4,351)	\$ (919)	\$ (2,311)
Net loss per share -- basic and diluted.....	\$ (0.43)	\$ (0.11)	\$ (0.66)	\$ (2.40)	\$ (3.00)	\$ (0.63)	\$ (1.50)
Weighted average shares -- basic and diluted.....							
	2,113	2,885	1,934	1,450	1,450	1,450	1,546
Pro forma net loss per share (unaudited)							
Net loss per share-basic and diluted.....					\$ (0.78)		\$ (0.32)
Weighted average shares-basic and diluted.....							
					5,594		7,313

The following data is presented:

- on an actual basis;
- on a pro forma basis to give effect to (1) the subsequent issuance of 42,081 Series D Convertible Preferred Shares and (2) the automatic conversion of all of CommTouch's convertible preferred shares into 7,109,800 ordinary shares upon the closing of this offering; and
- on a pro forma as adjusted basis to give effect to (1) the sale of 3,000,000 ordinary shares in this offering, assuming an initial public offering price of \$16.00 per share, (2) the sale of 1,344,086 ordinary shares to Go2Net and Vulcan Venture, in a concurrent private placement at an assumed private placement price of \$14.88 per share resulting in aggregate net cash proceeds from the public offering and the private placement of approximately \$61,410,000, (3) the issuance of 362,809 ordinary shares, assuming the net exercise of the outstanding

in-the-money warrants as of March 31, 1999 to purchase 405,940 ordinary shares at a weighted average exercise price of \$1.70 per share, of which warrants to purchase 277,460 shares expire upon the closing of this offering if not exercised, and (4) the issuance of 227,200 ordinary shares, assuming the net exercise of an in-the-money warrant to purchase 1,136,000 ordinary shares to be issued to Go2Net at an exercise price of \$12.80 per share, subject to adjustment as set forth in the warrant.

	DECEMBER 31,					MARCH 31, 1999 (UNAUDITED)		
	1994	1995	1996	1997	1998	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
(IN THOUSANDS)								
Consolidated Balance Sheet Data:								
Cash and cash equivalents.....	\$ 4	\$ 54	\$ 690	\$ 324	\$ 834	\$3,226	\$ 16,331	\$77,741
Working capital (deficit).....	(555)	(734)	539	(1,264)	(1,440)	1,418	14,523	75,933
Total assets.....	497	773	2,180	1,065	2,366	6,025	19,130	86,350
Long-term liabilities.....	352	324	371	366	530	560	560	560
Shareholders' equity (deficit).....	(554)	(650)	777	(1,018)	(815)	2,807	15,912	83,172

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere in this prospectus. 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 "believes," "anticipates," "plans," "expects," "intends" 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 discussed in "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a leading global provider of outsourced email and messaging solutions. Our flexible and highly customizable solutions enable us to satisfy the unique email and messaging needs of a wide range of customers, including Web-based companies, small websites and businesses worldwide. As of May 16, 1999, we had over 100 business partners offering our Web-based email from their sites. Our business partners include Excite, LookSmart, FortuneCity, Talk City and Nippon Telephone and Telegraph. Through our business partners' sites we host approximately 4.5 million emailboxes. In November 1998, we launched our ZapZone Network service, which enables small sites to provide email to their end users. As of May 16, 1999, we had registered approximately 75,000 sites through the ZapZone Network service, and were hosting approximately 480,000 ZapZone Network emailboxes. Business partners may provide us with a large number of users but pay a relatively small minimum annual service fee. Consumers have historically been reluctant to pay for services on the Internet, and therefore end users may not be willing to pay for premium services. Since untargeted advertising on the Internet has not shown a significant success rate, advertisers may not be willing to pay us to provide banner advertising or direct e-marketing.

Business History and Transition

Email Client Software Business (1991-1997). From 1991 to 1997, we generated all of our revenue from sales of software licenses, maintenance and service for stand-alone email client software for both mainframes and personal computers. In 1996, we generated approximately \$3.1 million in revenues from such software licenses.

Transition to Web-Based Email Services (1997). During 1996, the popularity of email at home and at work began to increase rapidly. Microsoft began bundling

Outlook, its email client software, in "office suite" packages. At the same time, Netscape began to provide its email client software bundled in its Internet browser software. The entrance into the email client software market by both Microsoft and Netscape resulted in the rapid adoption of email as a mass-market communications channel. At the same time, use of the World Wide Web (Web) began to expand rapidly, and the market for stand-alone email client software began to be dominated by companies which bundled such software with operating systems and/or browsers. We recognized an opportunity to leverage our technology and experience in developing email software to pursue the market created by these two rapidly growing phenomena: email and the Web. As a result, we redeployed the efforts of our existing research and development personnel and independent contractors to adapt the technology embedded in Pronto 96 for use as a Web-based email service. We ceased all stand-alone email software license sales during 1997, and as a result, revenues in 1997 decreased to \$899,000. To further support our transition to providing Web-based email services, in 1997 we opened a marketing, sales and support office in Silicon Valley in order to have better access to Web-based business partners.

Web-Based Email Service Business (January 1998-Present). In January 1998, we began to offer email services to business partners. Our services allow our business partners to provide free Web-based email to their end users, thus enhancing the business partner's online presence, increasing the frequency and

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duration of visits to the partner's website and creating an opportunity for the business partner and us to generate advertising and direct e-marketing revenue through email. Meanwhile, we recognized that webmasters on small sites were seeking a method to promote their sites and offer email to their users. In November 1998, we launched our ZapZone Network service which enables small sites to provide email to their end users at no cost in a matter of minutes.

Revenue Sources

Email Service Revenues. In 1998, our email service revenue was derived from service fees and setup and installation fees. Approximately 60.5% of our email service revenue resulted from contracts that provide for business partners to pay us minimum annual service fees. These agreements also typically provide for the business partner to pay us a share of revenues generated from the sale of banner advertisements on their email site. The minimum annual service fee is credited against the shared portion of the advertising revenue. Revenue from minimum annual service fees is recognized ratably over the contract term from the launch of the email site.

Some of our contracts with business partners provide for email service fees based solely on a share of banner advertising revenue, with no minimum annual commitment. In 1998, revenues from these contracts represented approximately 21.0% of our email service revenue. Revenues from sharing advertising are recognized when such revenues are earned by our business partner.

We anticipate that revenues from advertising will increase both in absolute dollars and as a percentage of total revenues. This is because we have recently attained a platform of approximately 4.5 million emailboxes through our business partners and we believe that we now have a large enough user base to be attractive to advertisers and to generate additional advertising revenues by targeting the user demographic objectives of the advertiser. In addition, by aggregating demographic information garnered from small websites, the ZapZone Network service is providing us with an additional opportunity to focus advertising efforts in a targeted manner. We anticipate that combined service fees and advertising revenues shared by business partners will continue to be our major source of revenue in the future.

The remaining 18.5% of email service revenues in 1998 consisted of setup and installation fees. We charge these fees in instances where the scope and complexity of the solution warrant such a fee. These revenues are recognized upon installation of the email site to which they relate. We expect that these revenues will increase in absolute dollars as such installations increase in number, but will decrease as a percentage of email service revenue in the future, because service fees and advertising revenues are expected to increase at a proportionally greater rate.

Premium Services. In March 1999, we launched our premium service offerings. These services enhance our core service and include features such as:

- Off-line email client access;
- Unified messaging;
- Additional disk storage space;
- Automated, user-defined email forwarding;
- Automated, rules-based pager notification; and
- Email-by-phone.

These services will be paid for by emailbox users. To date we have not generated any revenues from premium services but we anticipate that these revenues will be a meaningful component of our revenues in the future.

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Direct E-Marketing. In December 1998, we began to offer direct e-marketing opportunities to ecommerce vendors. Ecommerce vendors seek channels through which they can market goods and services. Because of our installed user base and our agreements with our business partners, we can assist ecommerce companies in marketing their products to end users who have opted to receive offers by email. We share with our business partners the revenues from this direct e-marketing, which are earned either on a per-message basis or as a commission on products sold. To date we have made these offerings available to only a limited number of users. However, we anticipate that direct e-marketing revenues will be a meaningful component of our revenues in the future.

STRATEGIC TRANSACTION

Concurrently with the sale of the shares in this offering we will enter into an agreement with Go2Net, a network of branded, technology- and community-driven websites focused on personal finance, commerce, and games. Go2Net also develops Web-related software. Pursuant to the agreement we will offer Go2Net's end users with a private label email service, including our email, calendaring and other services. The services will be customized to the look and feel of Go2Net's websites. The terms of this agreement are substantially the same as our commercial agreements with other business partners except that we have agreed to share a materially greater portion of our advertising revenues with Go2Net than we are sharing under other similar agreements. In addition, in connection with the agreement, we will issue to Go2Net warrant to purchase 1,136,000 ordinary shares at a per share exercise price of \$12.80, subject to adjustment as set forth in the warrant. The warrant is fully vested and non-forfeitable. The warrant will expire on the fifth anniversary of the public offering. The fair value of the warrants, estimated at \$5.8 million, will be amortized to operating expenses ratably over the minimum term of the agreement, or one year. Simultaneously with the sale of the shares in this public offering, we will sell 1,344,086 ordinary shares to Go2Net and Vulcan Ventures Incorporated at \$14.88 per share in a private placement which will not be registered with the Securities and Exchange Commission at the time of the public offering. In the future, we may have to issue in the money warrants to acquire our ordinary shares to business partners who provide us with a large base of potential end users. We may also have to provide these business partners with more favorable commercial terms than we have previously provided to our business partners. The issuance of in the money warrants and the grant of more favorable terms to business partners may further dilute our shareholders, increase our operating loss in the future and cause our stock price to fall.

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RESULTS OF OPERATIONS

The following table sets forth financial data for the years ended December 31, 1996, 1997 and 1998 and for the three months ended March 31, 1998 and 1999 (in thousands):

	YEAR ENDED DECEMBER 31			THREE MONTHS ENDED MARCH 31	
	1996	1997	1998	1998	1999
				(UNAUDITED)	
Revenues:					
Email services.....	\$ --	\$ --	\$ 389	\$ 32	\$ 346
Software licenses, maintenance and services.....	3,134	899	--	--	--
Total revenues.....	3,134	899	389	32	346
Cost of revenues:					
Email services.....	--	--	569	59	405
Software licenses, maintenance and services.....	463	165	--	--	--
Total cost of revenues.....	463	165	569	59	405
Gross profit (loss).....	2,671	734	(180)	(27)	(59)
Operating expenses:					
Research and development, net.....	1,479	1,108	1,149	266	307
Sales and marketing.....	1,965	2,202	2,001	459	481
General and administrative.....	465	829	604	138	807
Amortization of stock-based employee deferred compensation.....	--	--	91	2	386
Total operating expenses.....	3,908	4,139	3,845	865	1,981
Operating loss.....	(1,237)	(3,405)	(4,025)	(892)	(2,040)
Interest expense and other, net.....	(45)	(68)	(326)	(27)	(271)
Net loss.....	\$(1,282)	\$(3,473)	\$(4,351)	\$(919)	\$(2,311)

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 1998 AND 1999

Revenues. Email service revenues increased from \$32,000 for the three months ended March 31, 1998 to \$346,000 for the three months ended March 31, 1999. We began providing email services during the three months ended March 31, 1998. Our business partners have grown from six at March 31, 1998 to over 90 business partners at March 31, 1999. Revenues from one customer, Excite, amounted to \$55,000, or 15.9% of total revenues for the three months ended March 31, 1999. In the future, we expect revenues from Excite to decrease substantially as a percentage of email services revenue.

Cost of Revenues. Our cost of revenues increased from \$59,000 for the three months ended March 31, 1998 to \$405,000 for the three months ended March 31, 1999 because of the growth of the number of business partners. Costs of revenues consisted primarily of costs related to Internet data center services from a third-party provider, depreciation of equipment, Internet access, personnel and related costs. We expect cost of revenues to increase on an absolute basis, primarily as a result of an increase in our email service revenues, but to decrease as a percentage of email service revenues due to economies of scale.

Research and Development Costs, Net. Research and development costs consist primarily of personnel and related costs, depreciation of equipment, supply costs and royalties paid to the Israeli Government for grants received in prior years for research and development activities. These royalties are paid at rates ranging from 3% to 5% of total revenues. We do not expect to receive further grants from the Israeli Government. At March 31, 1999, our outstanding contingent obligation was approximately \$400,000. Research and development expense are charged to operations as incurred. Our research and development costs increased from \$266,000 for the three months ended March 31, 1998 to \$307,000 for the three months ended March 31, 1999, due primarily to higher personnel and related costs. We expect that research and development costs, net, will increase in absolute dollar amounts due to increases in personnel costs related directly to new employees being hired to develop new service offerings, however such costs will decrease as a percentage of revenues.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel

and related costs, public relations, direct sales efforts, including travel expenses and royalties paid to the Israeli Government for grants received in prior years for marketing activities. We have a contingent obligation to pay royalties to the Israeli Government for grants received in prior years for marketing activities at a rate of 3% of total revenues. At March 31, 1999, our outstanding contingent obligation was approximately \$121,000. Our sales and marketing expenses increased from \$459,000 for the three months ended March 31, 1998 to \$481,000 for the three months ended March 31, 1999, due primarily to marketing and other costs to support the growth of our email service revenues. We expect sales and marketing expenses to significantly increase in the future in absolute dollar amounts due to increases in personnel costs related directly to new employees being hired to conduct sales to business partners and the related market support to further develop our brand. We expect that for the next several quarters, the increase in sales and marketing will be somewhat proportionate to the increase in revenues. Once we achieve significant revenue growth, we expect that sales and marketing expenses will start to decline as a percentage of total revenues as we hire additional personnel and continue to support and develop the email service business.

General and Administrative. General and administrative costs consist primarily of personnel and related costs, professional services and facility costs. Our general and administrative expenses increased from \$138,000 for the three months ended March 31, 1998 to \$807,000 for the three months ended March 31, 1999, due primarily to substantially higher personnel and related costs, facility costs, higher fees for outside professional services and other costs to support the growth of our email service revenues. We expect general and administrative costs to increase on an absolute basis due to increased personnel and related costs, higher facility costs associated with additional personnel and other costs necessary to support and develop the email service business. We expect that general and administrative expenses as a percentage of total revenues will start to decline in the next several quarters.

Amortization of Stock-based Employee Deferred Compensation. Our stock-based employee compensation expenses increased from \$2,000 for the three months ended March 31, 1998 to \$386,000 for the three months ended March 31, 1999, due the amortization of the aggregate of \$7.2 million in deferred compensation recorded during the three months ended March 31, 1999. The deferred compensation is being amortized over the vesting schedule, generally four years.

Interest Expense and Other Expense, Net. Our interest expense and other expense, net, increased from \$26,000 for the three months ended March 31, 1998 to \$271,000 for the three months ended March 31, 1999, due primarily to increased recognized costs of warrants granted to the Bank Lepituach Ha Taasia B'Israel Ltd. (Bank Lepituach Ha Taasia). In April 1999, we fully repaid the short-term bank line of credit.

Income Taxes. As of December 31, 1998, we had approximately \$5.7 million of Israeli net operating loss carryforwards and \$4.7 million of U.S. federal net operating loss carryforwards available to offset future taxable income. The U.S. net operating loss carryforwards will expire in various amounts in the years 2010 to 2016. The Israeli net operating loss carryforwards have no expiration date.

COMPARISON OF YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

Revenues. In 1997, we ceased all sales of stand-alone email client software licenses, maintenance and services. Accordingly, revenue comparisons between 1996, 1997 and 1998 are not meaningful. In 1998, our email service revenues were \$389,000, of which one customer, Excite, represented 54%. In the future, we expect revenues from Excite to decrease substantially as a percentage of email service revenue because the 1998 revenues from Excite included one-time payments for setup and installation. We had no email service revenue in 1997. Our revenues from software licenses and maintenance fees decreased from \$3.1 million in 1996 to \$899,000 in 1997 due to the change in our business model and the phasing out of our stand-alone email client software business.

Cost of Revenues. In 1998, our cost of revenues was \$569,000 and consisted primarily of costs related to Internet data center services from a third-party provider, depreciation of equipment, Internet access, personnel and related costs. We expect cost of revenues to increase on an absolute basis, primarily as a result of an increase in our email service revenues, but to decrease as a

percentage of email service revenues due to economies of scale. We had no email service costs in 1996 and 1997. In 1996 and 1997, our costs of revenues were \$463,000 and \$165,000. These costs consisted of expenses related to the stand-alone email software business, including personnel and related costs, media duplication and product packaging. The decrease in cost of revenues in 1997 from 1996 was due to the change in our business model as we phased out our stand-alone email client software business.

Research and Development Costs, Net. Research and development costs decreased from \$1.5 million in 1996 to \$1.1 million in 1997 because of \$288,000 in off-setting royalty-bearing grants from the Israeli Government, recorded as a reduction of research and development costs. We have a contingent obligation to pay royalties at the rate of 3%-5% of total revenues. Our outstanding contingent obligation was approximately \$411,000 as of December 31, 1998. Research and development costs in 1998 remained relatively unchanged from 1997. However, in 1998 we transferred several key research and development personnel into our operations group to support and maintain our newly developed Web-based email services infrastructure. Costs relating to these personnel were included in cost of revenues in 1998. We expect that research and development costs, net, will increase due to increased personnel and related costs associated with the accelerated development of new email service offerings.

Sales and Marketing. Sales and marketing expenses were \$2.0 million in 1996, \$2.2 million in 1997 and \$2.0 million in 1998. We have a contingent obligation to pay royalties to the Israeli Government for grants received in prior years for marketing activities at a rate of 3% of total revenue. This contingent obligation was approximately \$121,000 at December 31, 1998.

General and Administrative. General and administrative costs were \$465,000 in 1996, \$829,000 in 1997 and \$604,000 in 1998. The increase in 1997 was primarily due to the write-off of \$171,000 for receivables related to the phasing out of our stand-alone email client software license sales.

Interest Expense and Other, Net. Interest expense and other, net, consists of interest payments and fair value of warrants granted in 1997 and 1998 in connection with a short-term bank line of credit. Interest expense and other expense, net, increased from \$45,000 in 1996 to \$68,000 in 1997 and to \$326,000 in 1998. This increase in 1998 was due to a higher level of borrowing and change in the terms of the agreement with Bank Lepituach Ha Taasia to include the grant of warrants in addition to customary interest payments. In April 1999, we fully repaid that short-term bank line of credit.

Income Taxes. As of December 31, 1998, we had approximately \$5.7 million of Israeli net operating loss carryforwards and \$4.7 million of U.S. federal net operating loss carryforwards available to offset future taxable income. The U.S. net operating loss carryforwards will expire in various amounts in the years 2010 to 2016. The Israeli net operating loss carryforwards have no expiration date.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain unaudited quarterly statements of operations data for the five quarters ended March 31, 1999. This information has been derived from CommTouch's consolidated unaudited financial statements, which, in management's opinion, have been prepared on the same basis as the audited Consolidated Financial Statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the quarters presented. This information should be read in conjunction with our audited Consolidated Financial Statements and the Notes thereto included elsewhere in this prospectus. The operating results for any quarter are not necessarily indicative of the operating results for any future period. Given the relatively small absolute dollar amounts in the operating results for each quarter presented below, non-periodic amounts accrued in one quarter cause significant fluctuations.

THREE MONTHS ENDED				
MARCH 31, 1998	JUNE 30, 1998	SEPTEMBER 30, 1998	DECEMBER 31, 1998	MARCH 31, 1999
(IN THOUSANDS)				
(UNAUDITED)				

Total email service revenues.....	\$ 32	\$ 59	\$ 130	\$ 168	\$ 346
Cost of email service revenues.....	59	85	166	259	405
Gross profit (loss).....	(27)	(26)	(36)	(91)	(59)
Operating expenses:					
Research and development.....	266	305	308	270	307
Sales and marketing...	459	506	509	527	481
General and administrative.....	138	137	151	178	807
Amortization of stock-based employee deferred compensation.....	2	8	18	63	386
Total operating expenses.....	865	956	986	1,038	1,981
Operating loss.....	(892)	(982)	(1,022)	(1,129)	(2,040)
Interest expense and other, net.....	(27)	(59)	(28)	(212)	(271)
Net loss.....	\$ (919)	\$ (1,041)	\$ (1,050)	\$ (1,341)	\$ (2,311)

FLUCTUATIONS IN QUARTERLY RESULTS

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

- continued growth of the Internet and of email usage;
- demand for Web-based email services;
- our ability to attract and retain customers and maintain customer satisfaction;

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- our ability to upgrade, develop and maintain our systems and infrastructure;
- the amount and timing of operating costs and capital expenditures relating to expansion of our business and infrastructure;
- technical difficulties or system outages;
- dollar/NIS exchange rate fluctuations;
- the announcement or introduction of new or enhanced services by our competitors;
- our ability to attract and retain qualified personnel with Internet industry expertise, particularly sales and marketing personnel;
- the pricing policies of our competitors;
- failure to increase our sales; and
- governmental regulation relating to the Internet, and email in particular.

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

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations principally from the sale of equity securities and to a lesser extent from bank loans and research and development and royalty-bearing marketing grants from the Israeli government. As of March 31, 1999, we had \$3,226,000 in cash and cash equivalents.

Net cash provided by financing activities was \$2.4 million in 1996, \$2.3 million in 1997, \$4.5 million in 1998 and \$5.0 million in the three months ended March 31, 1999. Net cash used in operating activities was \$1.3 million in 1996, \$2.6 million in 1997, \$3.6 million in 1998 and \$1.7 million for the three months ended March 31, 1999. Net cash used in operating activities in 1996, 1997, and 1998 and the three months ended March 31, 1999 is comprised of net loss for each of the years partially offset by depreciation and amortization expenses and in 1996, 1997 and the three months ended March 31, 1999 also impacted by changes in trade receivables in addition to an increase in prepaid expenses during the three months ended March 31, 1999. Net cash used in investing activities was \$427,000 in 1996, \$93,000 in 1997, \$442,000 in 1998 and \$950,000 for the three months ended March 31, 1999. These investing activities consisted of purchases of property and equipment. During 1998, we entered into capital leases of \$328,000.

As of March 31, 1999, we had net working capital of \$1.4 million. We had a short-term bank line of credit agreement with a bank, collateralized by all our assets and share capital, allowing us to borrow up to \$1.3 million. The short-term bank line of credit was repaid in April 1999. Interest under the terms of the short-term bank line of credit agreement was a combination of warrants for ordinary shares at an exercise price equal to the par value, calculated based on the outstanding utilized line of credit, and an additional annual interest payment at a rate of LIBOR plus 3% (LIBOR plus 8% for overdrawn amounts). Through March 31, 1999, we issued to the bank warrants to purchase 92,340 ordinary shares.

In the first quarter of 1999, we issued Series C Convertible Preferred Shares to investors resulting in net proceeds of \$5.3 million. In April 1999, we issued to investors Convertible Promissory Notes which have since converted into 42,081 Series D Convertible Preferred Shares, resulting in net proceeds of approximately \$13.2 million. All of our convertible preferred shares will automatically convert into ordinary shares upon the closing of an initial public offering.

We believe that the net proceeds from this offering, together with existing cash, \$19,200,000 in net proceeds from the concurrent private placement and our other financing arrangements, will provide us with sufficient funds to finance operations and make the necessary capital expenditures to support growth through the next 12 months.

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YEAR 2000 ISSUE

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any computer programs or hardware that have date-sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations, causing disruptions of operations for any company using such computer programs or hardware, including, among other things, a temporary inability to process transactions, send invoices or engage in normal business activities. As a result, many companies' computer systems may need to be upgraded or replaced in order to avoid Year 2000 issues.

We are a comparatively new enterprise, and, accordingly, the majority of the software and hardware we use to manage our business has been purchased or developed by us within the last 24 months. While this fact does not uniformly protect us against Year 2000 exposure, we believe we gain some mitigation from the fact that the information technology (IT) we use to manage our business is not based upon "legacy system" hardware and software. "Legacy system" is a term often used to describe hardware and software systems which were developed in previous decades when there was less awareness of Year 2000 issues. Generally, hardware and software design in this decade and the past several years in particular has given greater consideration to Year 2000 issues. All of the software code we have internally developed to manage our network traffic, for example, uses four digits to define the applicable year.

We are in the process of testing our internal IT and non-IT systems. To date, we have only completed preliminary testing of our internally developed IT and non-IT systems. All of the testing we have completed has been performed by our own personnel; to date, we have not retained any outside service or consultants to test or review our systems for Year 2000 compliance. Based on the testing we have performed, we believe that such software is Year 2000 compliant; however, we intend to complete more extensive testing in the third quarter of 1999.

In addition to our internally developed software, we utilize software and hardware developed by third parties for both our network and internal information systems. To date, we have not done any testing of such third-party software or hardware to determine Year 2000 compliance. We have, however, obtained certifications from our key suppliers of hardware and networking equipment for our data centers that such hardware and networking equipment is Year 2000 compliant. Additionally, we have received assurances from the providers of key software applications for our internal operations that their software is Year 2000 compliant. Based upon an initial evaluation of our broader list of software and hardware providers, we believe that all of these providers are reviewing and implementing their own Year 2000 compliance programs, and we will work with these providers to address the Year 2000 issue and continue to seek assurances from them that their products are Year 2000 compliant.

In addition, we rely on third party network infrastructure providers to gain access to the Internet. If such providers experience business interruptions as a result of their failure to achieve Year 2000 compliance, our ability to provide Internet connectivity could be impaired, which could have a material adverse effect on our business, results of operations and financial condition.

Our customers' success in maintaining Year 2000 compliance is also significant to our ability to generate revenues and execute our business plan. We currently derive revenue by charging a fixed fee per month for each mailbox we host, by charging a service fee plus advertising sharing or by sharing advertising revenues with our customers. In either case, interruptions in our customers' services and online activities caused by Year 2000 problems could have a material, adverse effect on our revenues to the extent that such interruptions limit or delay our customers' ability to expand their base of email users.

We have not incurred any significant expenses to date, and we do not anticipate that the total costs associated with our Year 2000 remediation efforts, including both expenses already incurred and any to be incurred in the future, will exceed \$100,000. However, if we, our customers, our providers of hardware and software, or our third party network providers fail to remedy any Year 2000 issues, our service could be interrupted and we could experience a material loss of revenues that could have a material adverse effect

on our business, results of operations, and financial condition. We would consider such an interruption to be the most reasonably likely unfavorable result of any failure by us, or the third parties upon whom we rely, to achieve Year 2000 compliance. Presently, we believe we are unable to reasonably estimate the duration and extent of any such interruption, or quantify the effect it may have on our future revenues. We have yet to develop a comprehensive contingency plan to address the issues which could result from such an event. We are prepared to develop such a plan if our ongoing assessment leads us to conclude we have significant exposure based upon the likelihood of such an event.

EFFECTIVE CORPORATE TAX RATES

Our tax rate will reflect a mix of the U.S. statutory tax rate on our U.S. income and the Israeli tax rate discussed below. We expect that most of our taxable income will be generated in Israel. Israeli companies are generally subject to corporate tax at the rate of 36% of taxable income. The majority of our income, however, is derived from our company's capital investment program with Approved Enterprise status under the Law for the Encouragement of Capital Investments in two separate plans, and is therefore eligible for certain tax benefits. Pursuant to these benefits, we will enjoy a tax exemption on income derived during the first two years in which such investment plans produce taxable income (provided that we do not distribute such income as a dividend) and a reduced tax rate of 10% to 25% for an additional period of eight years depending on the level of foreign investment in CommTouch. All of these tax benefits are subject to various conditions and restrictions. There can be no assurance that we will obtain approval for additional Approved Enterprise

programs, or that the provisions of the law will not change. Moreover, notwithstanding these tax benefits, to the extent we receive income from countries other than Israel, such income may be subject to withholding tax.

Since we have incurred tax losses through December 31, 1998, we have not yet used the tax benefits for which we are eligible.

IMPACT OF INFLATION AND CURRENCY FLUCTUATIONS

Most of our sales are in dollars. However, a large portion of our costs relates to our operations in Israel. A substantial portion of our operating expenses, primarily our research and development expenses, is denominated in NIS. For the purposes of our financial statements, costs not effectively denominated in dollars are translated to dollars when recorded, at prevailing exchange rates and will increase if the rate of inflation in Israel exceeds the devaluation of the NIS as compared to the dollar or if the timing of such devaluations lags considerably behind inflation. Consequently, we are and will be affected by changes in the prevailing NIS/dollar exchange rate. We might also be affected by the dollar exchange rate to the major European and Asian currencies, due to the fact that we derive revenues from business partners in Europe and Asia.

In recent years (until 1997), inflation in Israel exceeded the devaluation of the NIS against the dollar and the Company experienced increases in the dollar cost of its operations in Israel. For example, in 1995 and 1996, the rate of inflation in Israel was 8.1% and 10.6%, and the devaluation of the NIS against the dollar was 3.9% and 3.7%. This trend was reversed during 1997 and 1998 (when the rate of inflation was 7.0% and 8.6%, and the rate of devaluation was 8.8% and 17.6%). The reversal experienced in 1997 and 1998 may not continue and we may be materially adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of such devaluation lags behind increases in inflation in Israel.

Because exchange rates between the NIS and the dollar fluctuate continuously (albeit with a historically declining trend in the value of the NIS), exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency remeasurements are reported in the Consolidated Financial Statements in current operations. In the fourth quarter of 1998 the rate of exchange between the NIS and the dollar fluctuated more significantly than in prior periods.

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The representative exchange rate, as reported by the Bank of Israel, was NIS 4.034 for one dollar on March 31, 1999 (NIS 4.160 on December 31, 1998, NIS 3.536 on December 31, 1997 and NIS 3.251 on December 31, 1996).

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We develop our technology in Israel and provide our services in North America, India, Europe and the Far East. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. As most of our sales are currently made in U.S. dollars, a strengthening of the dollar could make our services less competitive in foreign markets. Our interest expense on our capital lease obligations with a U.S. leasing company is sensitive to changes in the general level of U.S. interest rates. Due to the nature and level of our debts, we have concluded that there is currently no material market risk exposure. Therefore, no quantitative tabular disclosures are required.

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BUSINESS

COMPANY OVERVIEW

We are a leading global provider of email and other messaging solutions. Our flexible and highly customizable solutions enable us to satisfy the unique email and messaging needs of a wide range of business partners, including websites of all sizes and businesses worldwide. As of May 16, 1999, we had over 100 business partners offering our Web-based email from their sites. Our business partners

include Excite, LookSmart, FortuneCity, Talk City and Nippon Telephone and Telegraph. Through our business partners' sites we serve approximately 4.5 million emailboxes. In November 1998, we launched our ZapZone Network service, which enables sites to provide email to their end users at no cost. As of May 16, 1999, we had registered approximately 75,000 sites through the ZapZone Network service, and were serving approximately 480,000 ZapZone Network emailboxes.

INDUSTRY BACKGROUND

GROWTH OF THE INTERNET WORLDWIDE AND PROLIFERATION OF EMAIL

The Internet has become a vitally important global medium for communication, commerce, content distribution and advertising. International Data Corporation, or IDC, estimates that as of December 1998, there were over 28 million Web users in the United States and over 83 million users worldwide. IDC projects that, by the end of 2002, these numbers will increase to over 90 million Web users in the United States and over 282 million users worldwide. This growth in the global usage of the Web provides significant opportunities for emerging Web-based businesses and other companies developing an online presence.

Email is one of the most widely used applications on the Internet and has become a primary platform for business and personal communication. According to Forrester Research, over 80 percent of Internet users access their email while online, making this activity the most popular use of the Internet. IDC projects that email traffic in the United States will increase from 1.2 billion messages per day in 1997 to 8.0 billion messages per day in 2002.

EMERGENCE OF WEB-BASED EMAIL

Until recently, most email systems were provided by employers, Internet service providers (ISPs) or universities to individuals or closed groups of end users through software applications located on the users' desktops or local area networks. Such email systems, however, only permit access through the computer or network on which the email software resides or through cumbersome remote access systems. The recent emergence of email systems that use Internet browsers as the application for sending and receiving email has resulted in tremendous advances in email access, functionality and ease of use. This new email standard is commonly referred to as "Web-based email."

Web-based email offers the following benefits over traditional closed systems:

- anytime, anywhere (universal) access to both business and personal email accounts;
- advanced integrated communication services over the Web, such as unified messaging (receiving faxes and voicemail via email) and integrated calendars and directories; and
- easy to use registration, setup and administration.

With the dramatic growth of international Internet usage, businesses worldwide are seeking to differentiate themselves online. Email is an optimal solution to address this business need because it increases brand

awareness, builds and reinforces a loyal, connected member base and facilitates commerce in the following ways:

- Companies embracing Web-based email can enhance their brand identity by controlling the look and feel of their Web-based email interface and also by providing end users with distinctive branded email addresses such as user@companyname.com.
- Web-based email significantly enhances the frequency and duration of website visits, commonly referred to as the website's "stickiness". The personalized nature of email and the ability to bundle it with additional services, such as calendaring, scheduling and unified messaging, establishes an important one-to-one relationship with email users.
- Email is emerging as an effective application for direct marketing online, as email users provide important demographic data when they

register for and use email services. This information can be used to create highly targeted marketing campaigns with minimal distribution costs.

THE OPPORTUNITY TO PROVIDE OUTSOURCED WEB-BASED EMAIL SERVICES

While many organizations worldwide recognize the advantages of Web-based email services, they often lack the infrastructure, expertise and resources to fully realize these benefits through internal development. Due to the growing complexity of in-house email systems and the increasing levels of infrastructure investment and management resources needed to provide comprehensive email services, organizations around the world are seeking to outsource email services. Businesses worldwide seek to partner with a dedicated provider of Web-based email to provide high quality, feature-rich email services without having to invest internally in email management and systems. Small websites, such as affinity sites and personal homepages, seek free, easy to implement email services for their end users.

THE COMMTOUCH SOLUTION

We are a leading global provider of email and other messaging services. Our flexible and highly customizable solutions enable us to satisfy the different email and messaging needs of a wide range of customers worldwide, including websites of all sizes and businesses of all types.

BENEFITS OF THE COMMTOUCH SOLUTION

Extensive Email Features. Our core solution is easy to use and provides a broad range of industry-standard functionality. This includes the ability for end users to collect email from other email accounts, to create folders, to attach electronic documents, to store messages, to maintain a contact center, to create distribution lists and to establish user profiles and signatures. Our core service uses IMAP4, an advanced email protocol, which allows email folders to be accessed from multiple email environments.

The value of our solution is increased by our provision of premium services, which allow end users to send and receive faxes, voicemail and pages from the mailbox; access the Web-based mailbox from an off-line client (such as Microsoft Outlook); and have email forwarded to other addresses. We believe that, by providing a single platform which integrates multiple communication services and devices, the Web-based mailbox we provide has the potential to become our end users' primary online communications center.

Ability to Support Hundreds of Millions of Mailboxes. Our modular technology architecture enables the rapid set up of full-service hosting facilities and enables us to rapidly and easily expand our system as our user base grows. In addition, we utilize redundant servers and server load balancing to re-direct traffic to prevent service interruptions. Our system architecture and software platform have been designed to provide high quality service to hundreds of millions of mailboxes across millions of domains. We believe that our robust and flexible technology platform enables us to maintain one of the highest service performance levels in the industry.

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Customization. Our solutions enable our business partners to leverage their email as a brand building tool. Business partners offer our email and messaging services to their end users with the partner's domain name. For example, a business partner can provide email at its website with an address such as: user@companyname.com. This repeated visibility of the partner's name on every email message promotes brand awareness and customer loyalty. In addition, our business partners can use our proprietary customization tool to design the look and feel of their Web-based email interface so that it reflects their own brand image.

Increased Website Usage. Our solutions increase the potential for our partners to generate revenue by increasing the stickiness of their websites. We believe that traffic to our partners' websites increases as end users frequently visit the website to check their email. Thus, business partners may have many opportunities to expose their end users to repeated and/or fresh content every time they send or receive email. The benefits of increased website stickiness include more frequent communication with end users, enhanced customer loyalty and the opportunity to generate revenues from advertising, direct marketing and

ecommerce transactions.

Online Marketing Capabilities. Our business partners can leverage our email solutions along with the demographic information of their end users to conduct one-to-one marketing and targeted advertising campaigns. We collect demographic information from end users when they register for their emailbox. We believe this information provides a powerful platform on which to design targeted marketing campaigns. To enhance our business partners' marketing capabilities, we provide our MailTarget tool which enables them to select and deliver tailored messages to targeted segments of their user population.

Rapidly Deployable and Cost-Effective Solutions. Our solutions for business partners can be implemented in as little as several days, while solutions for small websites can be implemented in a matter of minutes. We believe that this rapid time to market is critical to our business partners, who desire to realize the benefits of Web-based email as quickly as possible. Our flexible technology and economies of scale enable us to provide email solutions in a cost-effective manner, allowing businesses to achieve significant economic advantages. We also provide comprehensive maintenance and administration of our email service, which eliminates the need for our business partners to undertake the significant burden of developing and maintaining an in-house email system.

Extensive Language Capabilities. We provide email services in the following 14 languages: English, Chinese, Japanese, Spanish, French, German, Portuguese, Dutch, Finnish, Danish, Norwegian, Swedish, Russian and Italian. Additionally, we can support multiple languages on the same site for any of our business partners and offer spell-checking in many of these languages. Our multi-lingual capabilities enable us to serve the needs of businesses worldwide as well as multinational organizations.

COMMTOUCH STRATEGY

Our objective is to be the leading global provider of integrated email and other messaging services. We plan to achieve this goal by pursuing the following key strategies:

EXPAND USER BASE BY ADDING BUSINESS PARTNERS

We are building our base of email users by partnering with companies worldwide that want to offer their online customers a branded email service. As of May 16, 1999, we had over 100 business partners offering our Web-based email from their sites. Through these business partners, we host approximately 4.5 million emailboxes worldwide. These partners include Web-based companies, such as Excite, Talk City, LookSmart, FortuneCity and Nippon Telephone and Telegraph. Concurrently with the closing of this offering we will enter into an agreement with Go2Net to provide its end users with a customized, private label email service. We plan to continue to recruit top-tier partners and to position ourselves as a leading provider of state-of-the-art email services that are critical to our partners' online business strategy. We believe recruiting more business partners and end users will provide us with greater revenue opportunities

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from service fees, advertising, premium services and direct e-marketing possibilities as well as greater brand recognition.

EXTEND INTERNATIONAL LEADERSHIP

We plan to continue to aggressively market our solutions to business partners worldwide. We have focused on marketing our international email services in countries which we believe will experience the largest growth in Web users. We have developed multiple language interfaces for our email services to be used in the world's most widely used non-English languages, such as Chinese, Japanese, Russian, French, Spanish and German. We have also established a marketing group in Israel, because of its proximity to both Europe and Asia, and a marketing group in the United States to market to North America, Canada and Latin America. We believe that we have a strong advantage in providing Web-based email services in many major foreign markets.

EXPAND OUR EMAIL SERVICE FOR SMALL WEBSITES THROUGH THE ZAPZONE NETWORK SERVICE

Small websites, online affinity groups and personal homepages represent a

significant and growing segment of the market for Web-based email communications. We recognized that this market was under-served, and as a result we developed our ZapZone Network service solution, which we launched in November 1998. By May 16, 1999, we had registered approximately 75,000 sites through this service, and are currently hosting approximately 480,000 ZapZone Network service emailboxes. Our objective is to make the ZapZone Network service the premier brand of choice for small sites. Every email sent and received contains the ZapZone Network domain name, and the "powered by CommTouch" logo. We believe that this produces a powerful viral marketing effect and promotes the ZapZone Network brand quickly, efficiently and at a low cost. We plan to generate revenues from our ZapZone Network service by selling premium and direct marketing services to end users and also by selling advertising and sponsorship packages to third parties.

EXPLOIT PRICE-PER-EMAILBOX OFFERING TO BUSINESSES

We believe that as more businesses seek to outsource their email services and develop a need for creative messaging solutions, there is an opportunity for us to provide our price-per-emailbox outsourcing solutions. We intend to aggressively market our outsourcing solution by increasing our direct sales and marketing personnel and resources in this market segment. Additionally, we intend to partner with businesses that have traditionally offered goods and services to the small office/home office (SOHO) market to offer the price-per-emailbox option to that market.

DRIVE MULTIPLE REVENUE STREAMS

We plan to continue to generate multiple revenue streams from our email and messaging services. We are currently focused on the following revenue sources:

- Service fees. We plan to continue to charge service fees for delivering outsourced email solutions to business partners.
- Advertising. We plan to continue to sell advertising and sponsorships on our global email network to both business partners and third party vendors.
- Premium services. We plan to continue to market and upsell premium services to end users.
- Direct online marketing. We plan to continue to offer business partners and other third parties the opportunity to send targeted messages to select segments of our business partners' user base and our ZapZone Network user base, and share in the revenue that these parties generate from online selling.

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EXTEND TECHNOLOGY LEADERSHIP IN EMAIL SERVICES

We intend to leverage our core technology, software platform and expertise in developing and managing a comprehensive Web-based email service to deliver industry-leading functionality and advanced messaging services. We are currently planning to add new services that we believe end users and webmasters desire, including calendar integration, webmaster administration tools, message boards and list server features, HTML editing and email message language translation. We intend to continue to work closely with our business partners to identify new trends and functionality that will be popular with end users.

LEVERAGE OUR COST-EFFECTIVE TECHNOLOGY PLATFORM

Our open, scalable architecture gives us the flexibility to use servers that provide us with the best cost-quality combination and to leverage third-party hosting providers. This enables us to achieve a low service cost-per-emailbox while maintaining a high level of service quality. This combination of economic advantage and service quality enables us to price our services attractively to our business partners and end users. We believe that the price performance of our solution enables us to compete aggressively, expand market share and build our brand name.

SERVICES

We provide outsourced email and messaging services to customers of all sizes. Our solutions enable these organizations to attract, retain, communicate and

conduct ecommerce with their end users.

We provide our email and messaging solutions through a variety of licensing arrangements. These arrangements typically consist of one of the following:

- a minimum annual service fee plus advertising revenue sharing;
- advertising revenue sharing only; or
- price-per-emailbox.

For our ZapZone Network service members, we provide our core email and messaging services free of charge. We currently derive revenue from this network through advertising and we plan to upsell our premium services to users in the ZapZone Network.

CORE SERVICE

Our core service provides the following features:

FEATURE	DESCRIPTION
ELECTRONIC MAILBOX	Includes a full range of industry-standard functionality, such as the ability for end users to create folders, attach electronic documents, store messages, maintain a contact center, distribute lists, establish user profiles and signatures.
PARTNER-BRANDED ELECTRONIC MAIL INTERFACE	Business partners offer our email services to their end users with the business partner's name included in the domain address. This repeated visibility of the business partner's name promotes brand awareness and customer loyalty. Additionally, our business partners can design the look and feel of their Web-based email interface with our proprietary customization wizard tool.
ENHANCED MANAGEMENT FEATURES	Includes advanced email functionality such as the ability to collect email from other email accounts, sort email and access a sent messages folder. Also includes a draft folder option, message notification upon login and IMAP4 support, which allows email folders to be accessed from multiple email environments.
CONTACT CENTER	Enhanced address book functionality that includes integrated third-party instant messaging and chat.
SPAM PROTECTION	Advanced anti-spamming controls and email filtering.
MULTIPLE LANGUAGE CAPABILITY	Our email services are provided in 14 languages: English, Chinese, Japanese, Spanish, French, German, Portuguese, Dutch, Finnish, Danish, Norwegian, Swedish, Russian and Italian. Additionally, we provide spell-checking in many of these languages and can support more than one language on any of our customer websites.
KIDS' EMAIL	An email option that enables parents to control who may correspond electronically with their children.

PREMIUM SERVICES

We introduced our premium services in March 1999. These services are designed to transform the end user's mailbox into an integrated primary communications

center. We currently offer the following premium services to end users for a fee:

FEATURE	DESCRIPTION
OFF-LINE EMAIL CLIENT ACCESS	End users can access their mailbox using either a Web browser or their off-line client software, such as Microsoft Outlook.
UNIFIED MESSAGING	This service enables the mailbox to become an integrated communications platform through which the user can access email and send and receive voicemail messages, faxes, and pages.
ADDITIONAL DISK SPACE STORAGE	End users can increase their storage capacity up to an additional ten megabytes of disk space to maintain more folders and messages in their mailbox.
AUTOMATED, USER-DEFINED EMAIL FORWARDING	Incoming emails can be automatically forwarded to an alternate mailbox based on the end user's pre-set criteria.
AUTOMATED, RULES-BASED PAGER NOTIFICATION	Incoming emails can be automatically forwarded to the end user's pager based on the end user's pre-set criteria.
EMAIL-BY-PHONE	End users can call to have their email messages read to them using text-to-speech technology. End users have the option to reply with a voicemail message that is sent as a voice attachment, fax the email or can delete the message.
INTERNET PROTOCOL (IP) TELEPHONY ACCESS	Enables voice communication over the Internet that is integrated with the end user's mailbox.

The unified messaging, email-by-phone and IP telephony premium services integrate third party technology.

PLANNED SERVICES

We are developing new messaging services to complement our existing services. We actively monitor the email and communication needs of our business partners and end users and work to develop new features and enhancements to meet their evolving requirements. The following services are currently in, or planned for, development:

FEATURE	DESCRIPTION
CALENDAR INTEGRATION	Online calendars and group scheduling will be integrated with the end user's email interface and contact center, as well as to applications such as Microsoft Outlook and Palm Pilot software. (Anticipated in the third quarter of 1999).
ENHANCED EMAIL SECURITY	Support for SSL encryption and technologies with enhanced anti-virus and anti-vandal security measures. (Anticipated in the third quarter of 1999).
WEBMASTER ADMINISTRATION TOOLS	Provides webmasters with enhanced website administration functionality, including opening and deleting accounts online, enhanced tracking and reporting features, and Lightweight Directory Application Protocol (LDAP) support, which provides remote enhanced administrative and control

capabilities. (Anticipated in the third quarter of 1999).

COMMUNITY-BUILDING APPLICATIONS

Additional functionality such as message boards and list servers, which enable frequent communication among end users. (Anticipated in the third quarter of 1999).

EMAILBOX ENHANCEMENT

Enhancements such as message search features, HTML editing and enhanced secure login interface. (Anticipated in the third quarter of 1999).

EMAIL MESSAGE LANGUAGE TRANSLATION

Email messages will be automatically translated between languages according to pre-defined user preferences. (Anticipated in the fourth quarter of 1999).

Direct online marketing services. We have a large and growing network of end users. As of May 16, 1999, through our business partners we host approximately 4.5 million emailboxes and through our ZapZone Network service, which has over 75,000 sites registered, we host approximately 480,000 emailboxes. This extensive user network, along with our advanced technologies and strategic relationships, will allow us to offer value-added direct marketing services to our business partners and third parties. We are currently planning the following services:

Deal Me In (also known as Opt-in). Users can elect to receive promotions from third-party vendors for pre-selected product categories such as books, music, toys, computers and gifts. Whenever end users choose to purchase one of these items, we would earn a percentage of the revenue generated from the transaction.

MailTarget. We provide our business partners with a Web-based tool which enables webmasters to select and send tailored messages to targeted segments of their end user base. We would earn revenues by charging business partners a fee for each message sent with this tool.

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Third-party marketing programs. In addition to our own internal opt-in program, we also provide other third-party direct marketing companies with the opportunity to leverage our extensive user base to market their products. We would earn revenues by charging third-party direct marketing companies a fee for each message sent.

The statements in this prospectus regarding planned service offerings and anticipated features of such offerings are forward-looking statements. Actual service offerings and benefits could differ materially from those projected. We provide some of our features and services by integrating our technology with what we believe to be best of breed, third-party providers.

THE ZAPZONE NETWORK EMAIL SERVICE

Our ZapZone Network service delivers email messaging solutions to small websites and homepages, which we believe represent a large and growing market of end users. Our ZapZone Network service enables individuals and website administrators to set up Web-based email online, often in under ten minutes. ZapZone Network-enabled sites are able to provide our core Web-based email services to their end users in multiple languages. Our ZapZone Network service enables websites to collect valuable user demographic information, which facilitates their ability to conduct targeted marketing campaigns with their members. Webmasters can then communicate with and market to those users. In addition, we plan to sell premium services to these end users in the near future.

PRONTOMAIL

We provide a Web-based email service directly to end users under the name ProntoMail. Individuals can register for this service through our corporate website. We use ProntoMail for beta testing of new service offerings and have no plans to actively market this service.

CUSTOMERS

BUSINESS PARTNERS

We offer email and messaging communications services to over 100 global business partners. The following is a list of companies with which we have email service agreements and which have the greatest number of mailboxes within their respective categories:

COMMUNITY SITE:

TALK CITY (CHAT ROOMS)

FORTUNECITY (GENERAL)

LOOKSMART (PORTAL)

COLLEGES.COM (STUDENT INFORMATION)

DESERET (MORMON COMMUNITY SITE)

INTERNATIONAL SITE:

EXCITE (PORTAL)

GOO (NIPPON TELEPHONE AND TELEGRAPH)

YUPI (SPANISH PORTAL)

SOHU (CHINESE PORTAL)

MONCOURRIER (FRENCH CANADIAN PORTAL)

DIGITAL MEDIA COMPANY:

PRIMEDIA (SEVENTEEN.COM)

DISCOVERY CHANNEL ONLINE

PROLAUNCH (PERSONAL MEDIA)

MEDSCAPE (MEDICAL)

ZD NET (ONLINE MEDIA)

ENTERTAINMENT SITE:

WARNER BROS. (ACMECITY.COM)

JOKES.COM

GARFIELD.COM (CARTOON SITE)

MUSIC.COM

HEADBONE.COM (KIDS SITE)

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NEWSPAPERS/PUBLISHING:

CANOE (CANADIAN NEWS)

THE IRISH TIMES

HOLLINGER GROUP (JERUSALEM POST)

THE TIMES OF INDIA

NEWS CORP. (CHINABYTE)

At the closing of this offering we will enter into a strategic relationship with Go2Net, a network of branded, technology- and community-driven websites, pursuant to which we will provide our Web-based email services to Go2Net's

various branded websites, including Go2Net, Metacrawler, Hypermat, Virtual Avenue, Silicon Investor and Playsite.

ZAPZONE NETWORK MEMBERS

We meet the email and messaging needs of small websites and home pages through our ZapZone Network (ZZN). This service enables our members to offer Web-based email and messaging to their end users and allows us to increase our membership base. The following is a sampling of ZapZone Network member sites:

ZZN MEMBER	SITE DESCRIPTION
Baby.com (baby.zzn.com)	Community site that aggregates parenting information and sells baby-related products.
Bboy.com (bboy.zzn.com)	Music-oriented website that aggregates "hip hop" information.
Citrus Cool Kids (citrus.zzn.com)	Children's portal that offers book reviews, a newsletter, and information about games and the Internet.
Diabetes.com (diabetes.zzn.com)	Health-oriented site for diabetes information.
OilLink (oillink.zzn.com)	Oil industry news site.
Access Bollywood (jaan.zzn.com)	Information on Indian films and celebrities.
Soccer Club (soccerclub.zzn.com)	Website for soccer fans around the world.
The Tom Green Show (tomgreenshow.zzn.com)	Fan club for the MTV talk show host Tom Green.

SALES AND MARKETING

SALES STRATEGY

Our flexible and highly customizable solutions enable us to satisfy the email and messaging needs of a wide range of customers worldwide, from Web-based companies to small websites and businesses. Our sales strategy is to target these market segments through a combination of direct, indirect and online selling initiatives. Our direct sales force is responsible for targeting large companies, online businesses and hosting sites throughout the world. While our salespeople are responsible for selling our solutions in a geographic area, they often collaborate to recruit new business partners, particularly when dealing with multinational organizations. Our sales offices are located in Santa Clara, California, and Ein Vered, Israel. We plan to extend our sales force into Europe and Asia within the next 12 months. As our sales force grows, it will focus not only on acquiring new partners worldwide, but also on continuing to sell premium and direct e-marketing services to existing clients.

We also plan to enter into agreements with select third parties, who will package our messaging solution as part of a comprehensive service offering that they will sell to their business customers. We expect to share revenues and/or receive fees from these third parties.

We will continue to actively promote our ZapZone Network service to small websites and businesses. A key part of our ZapZone Network strategy will be for us to mobilize our direct and indirect sales forces to sell premium and direct online marketing services to ZapZone Network members.

MARKETING STRATEGY

Our marketing strategy is focused on increasing global awareness of our solution and building our brand as a leading international provider of email and messaging services. We plan to market our solution primarily through a mix of

print advertising, direct marketing, public relations and online initiatives. We plan to aggressively promote our premium services to our business partners and their end users and our direct e-marketing services to our business partners and third parties. We intend to leverage our direct sales force and develop co-branding and marketing opportunities with other online organizations to augment our marketing efforts. Our ZapZone Network service logo is featured on every ZapZone Network service member homepage and we believe that as more members join the ZapZone Network service and use zzn.com as their email suffix, its brand will be strengthened.

BUSINESS PARTNER SUPPORT

CommTouch provides its business partners rapid callback technical support 24 hours a day, seven days a week. We have also developed a proprietary software tool that provides end users with immediate online support without intervention from customer service representatives or technical staff. We believe that this technical support model enables us to provide high quality and cost effective support service to our business partners and end users.

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TECHNOLOGY

We leverage our eight years of email and technology experience to create world-class, robust, full-featured, reliable email solutions. We believe we possess three major advantages over other Web-based email solutions:

SCALABLE AND MODULAR SYSTEM ARCHITECTURE

Our Web-based email system is designed to provide maximum flexibility. We have developed a system architecture consisting of three main components: Web servers, mail servers and database servers. Web servers are responsible for the front-end email application, mail servers are responsible for the storage and transmittal of email messages and database servers are responsible for storing all other important end user and partner information. These servers interact through standard communications protocols such as HTTP, IMAP4, POP3 and SMTP and ODBC.

LOGO

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The modularity of our network architecture provides several key technological advantages:

- Rapidly deployable and cost-effective. The design of our system enables us to significantly reduce our deployment time as well as costs to support each mailbox.
 - We outsource server hosting and Internet backbone access to third party providers because they are able to offer such services at bulk rates. In addition, there are numerous third-party providers from whom we can obtain these services, so our capacity is not limited and we are able to obtain favorable rates. This significantly reduces our Internet connectivity and server maintenance costs.
 - The modularity of our system architecture allows us to choose from among a broad range of industry-standard mail servers, and select the servers with optimal price/performance characteristics. Again, we are able to obtain these servers from a number of vendors, so our capacity is not limited.
 - The outsourcing of our server needs enables us to focus on the rapid deployment of applications for our clients rather than on the costly and time-consuming maintenance and development of an internal hardware infrastructure.
 - Because third-party mail servers are constantly upgraded with the most advanced features (LDAP support, HTML messaging, etc.), we are able to reduce our development time by leveraging existing off-the-shelf technology and immediately integrating these features into our service offerings.

- Scalable and reliable. Our modular technology architecture enables the rapid setup of full-service email hosting facilities and enables us to quickly and seamlessly expand our system as our user base grows. In addition, we utilize redundant servers and server load balancing capabilities to re-direct traffic if a server malfunctions. Our system architecture and software platform have been designed to provide excellent service to hundreds of millions of emailboxes across millions of domains. We believe that our robust and flexible technology platform enables us to maintain one of the highest service performance levels in the industry.
- Portable. As the market for outsourced email systems evolves, some organizations may demand their own in-house hosting facility. The highly modular nature of our system architecture provides us with the ability to duplicate a system in another location within a period of several days. As a result, we are well-equipped to rapidly deploy email services to this growing subset of the outsourced email systems market.

PROPRIETARY DEVELOPMENT LANGUAGE

We have custom-built a proprietary software development language called Application Dynamic Markup Language (ADML) in order to maximize the flexibility and minimize the development time of our email solutions.

The ADML environment encapsulates the functionality and layout of a generic Web-based email interface, while allowing our developers to rapidly customize a business partner's email system with specific features. All external resources, such as text strings, images and site-dependent parameters are stored in various databases. When a new site is built, the ADML code is compiled into ASP (Microsoft's Active Server Pages technology) code which runs on the web servers and translates the ADML code into HTML. This enables the developer to build an email interface for a business partner without having to write a single line of HTML code. This provides us with a competitive advantage for several reasons:

- we can add new functionality and features (languages, premium and direct marketing services, etc.) to any business partner's existing email system in as little as a few hours;
- we can simultaneously upgrade more than one email system (for example, immediately making additional languages available to any end user of a ZapZone Network service email site); and

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- we can offer automated email customization tools to our end users. For example, the ZapZone Network service takes advantage of the flexibility provided by ADML to allow webmasters to build, customize and deploy ready-to-use email sites in very little time.

ADML FLOW CHART
[ADML FLOW CHART]

ADVANCED PROPRIETARY TECHNOLOGIES

We have developed the following proprietary technologies:

- Complex Foreign Language Support. Currently, our system is fully double-byte-enabled to handle intricate character languages such as Chinese and Japanese. We are currently in the final stages of developing the technology to enable right-to-left reading/writing capabilities to support languages like Hebrew, Arabic and Urdu.
- Integrated Open Platform Interface. We have developed an integrated platform and series of application programming interfaces that enable us to rapidly and fully integrate additional communications features and functionality into our service offering.
- Automated Customer Service. We have developed a proprietary software tool that allows us to field most end users' technical questions with an automated email feedback system.
- Advanced Direct Marketing Technology. Our MailTarget service is a Web-based tool which provides business partners with a user-friendly

method of selecting and delivering tailored messages to a targeted segment of their user population.

- Customization Wizard Tool. We have developed a proprietary technology tool which enables customers to design the look and feel of their Web-based email interface so that it is consistent with their own brand images.

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COMPETITION

The market for email and messaging services is intensely competitive and we expect it to be increasingly competitive. In addition to competing with companies that develop and maintain in-house email solutions, we directly compete with Web-based email service providers, including USA.NET, Mail.com and Critical Path. We also compete with software companies that provide email, including Microsoft, Software.com and Lotus Development Corporation. Microsoft currently offers free Web-based email through its Hotmail website. We face further competition from websites that offer email services, ISPs, including America Online (and its subsidiary, Netscape), Yahoo and Lycos, and other service providers, such as telecommunications companies.

Some of our competitors provide a variety of Web-based services in addition to email, such as Internet access, browser software, homepage design and hosting. The ability of these competitors to offer a broader suite of complementary services may give them a considerable advantage over us. Some of our competitors may offer services at or below cost. Many of our current and potential competitors have longer Web-based email operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we do and may enter into strategic or commercial relationships with larger, more established and better-financed companies.

We believe that our solution has the following competitive advantages:

- highly customizable and flexible;
- rapidly deployable;
- available in 14 languages;
- designed to integrate numerous messaging applications; and
- has the ability to effectively address multiple market needs.

However, despite our competitive positioning, we may not be able to compete successfully against current and future competitors.

INTELLECTUAL PROPERTY

We regard our copyrights, service marks, trademarks, trade secrets and similar intellectual property as critical to our success, and rely on trademark and copyright law, trade secret protection and confidentiality and/or license agreements with our employees, customers, partners and others to protect our proprietary rights. We have the following registered trademarks: COMMTOUCH (registered in the U.S.); PRONTO (U.S. and other countries); COMMTOUCH SOFTWARE (Australia and New Zealand); PRONTO FAMILY, PRONTO SECURE (Japan); PRONTO MAIL (Japan and New Zealand). We also have the following pending trademark applications: ZAPZONE NETWORK, ZZN (U.S., Israel and other countries) and PRONTO (Canada, Mexico, European Community and India). It may be possible for unauthorized third parties to copy or reverse engineer certain portions of our products or obtain and use information that we regard as proprietary. Certain end user license provisions protecting against unauthorized use, copying, transfer and disclosure of the licensed program may be unenforceable under the laws of certain jurisdictions and foreign countries. 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. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competing companies will not independently develop similar technology.

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 trademarks and other intellectual property rights of third parties by us and our licensees. Such

claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Our ZapZone Network service allows webmasters to select the email service name of their choice. There is, therefore, the possibility that they will select email service names that may infringe the rights of others under U.S. state and/or federal or foreign trademark and/or anti-dilution or similar laws. ZapZone Network service's placement of ZapZone Network service icons and advertisements on ZapZone Network service webmasters' web pages may contribute to our perceived liability for any allegedly infringing acts. We do not audit webmasters' email service name choices for compliance with any intellectual property rights of others. However, in our current webmaster license agreements, we require webmasters to indemnify us for claims resulting from their chosen email service names; we also require users to indemnify us in their license agreements. Furthermore, in our license agreements with webmasters and users, we expressly reserve the right to eliminate their account or to change their email service names, in our sole discretion. We have received complaints from several parties that email service names chosen and registered by ZapZone Network service users are similar or identical to domain names and/or trademarks in which the complainants claim an interest. We responded by referring the complainants to the webmasters who registered those email service names, as it is our policy to do.

We also intend to continue to strategically license certain technology from third parties, including our mail server and SSL encryption technology. In the future, if we add certificate technology to our systems, we may license additional technology from third-party vendors. We cannot be certain that these 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 and services. These third-party in-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 and service development until equivalent technology can be identified, licensed and integrated. Any such delays in services could cause our business, financial condition and operating results to suffer.

GOVERNMENT REGULATION

Although there are currently few laws and regulations directly applicable to the Internet and commercial email services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or commercial email services covering issues such as user privacy, pricing, content, copyright, distribution, antitrust and characteristics and quality of products and services. Further, the growth and development of the market for online email may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online. The adoption of additional laws or regulations may impair the growth of the Internet or commercial online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business, or otherwise have a material adverse effect on our business, operating results and financial condition. 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. Any such new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business or the application of existing laws and regulations to the Internet could have a material adverse effect on our business, operating results and financial condition.

EMPLOYEES

As of March 31, 1999, we had 62 full-time employees. None of our U.S. employees is covered by a collective bargaining agreement. We believe that our relations with our employees are good.

Israeli law and certain provisions of the nationwide collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordinating Bureau of Economic Organizations (the

Israeli federation of employers' organizations) apply to CommTouch's Israeli employees. These provisions principally concern the maximum length of the work day and the work week, minimum wages, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. Furthermore, pursuant to such provisions, the wages of most of CommTouch's employees are subject to cost of living adjustments, based on changes in the Israeli Consumer Price Index (CPI). The amounts and frequency of such adjustments are modified from time to time. Israeli law generally requires the payment of severance pay upon the retirement or death of an employee or upon termination of employment by the employer or, in certain circumstances, by the employee. CommTouch currently funds its ongoing severance obligations by making monthly payments for insurance policies.

A general practice in Israel followed by CommTouch, although not legally required, is the contribution of funds on behalf of certain employees to an individual insurance policy known as "Managers' Insurance." This policy provides a combination of savings plan, insurance and severance pay benefits to the insured employee. It provides for payments to the employee upon retirement or death and secures a substantial portion of the severance pay, if any, to which the employee is legally entitled upon termination of employment. Each participating employee contributes an amount equal to 5% of such employee's base salary, and the employer contributes between 13.3% and 15.8% of the employee's base salary. Full-time employees who are not insured in this way are entitled to a savings account, to which each of the employee and the employer makes a monthly contribution of 5% of the employee's base salary. CommTouch also provides certain employees with an Education Fund, to which each participating employee contributes an amount equal to 2.5% of such employee's base salary, and the employer contributes 7.5% of the employee's base salary.

OFFICE LOCATIONS

Our principal executive offices are located at 10 Technology Avenue, Ein Vered 40696, Israel, where our telephone number is 011-972-9-796-3445, and 3945 Freedom Circle, Santa Clara, California 95054, where our telephone number is (408) 653-4330.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The executive officers and directors of CommTouch and their ages, as of March 31, 1999, are as follows:

NAME	AGE	POSITION
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Gideon Mantel(1).....	39	Chief Executive Officer and Director
Isabel Maxwell.....	48	President, CommTouch Software, Inc.
Amir Lev.....	39	Chief Technology Officer, General Manager and Director
James Collins.....	40	Chief Financial Officer and Secretary
Eran Schindler.....	33	Vice President, Finance
Robert "Rip" Gerber.....	36	Vice President, Marketing, CommTouch Software, Inc.
Avner Amram.....	37	Vice President, Operations, CommTouch Software, Inc.
Yael Elish.....	30	Vice President, Strategic Development, CommTouch Software, Inc.
Igor Gusak.....	44	Vice President, Sales, CommTouch Software, Inc.
Yuval Neria.....	39	Vice President, International Sales
Ronen Rosenblatt.....	35	Vice President, Research and Development
Allan Barkat(1)(2).....	39	Chairman of the Board of Directors
Yiftah Atir.....	49	Director
Yair Safrai.....	40	Director
Yoseph Sela(1)(2).....	46	Director

Richard Sorkin(3)..... 37 Director
Thomas Camp(4)..... 35 Director

- (1) Member of the Compensation Committee
- (2) Member of the Audit Committee
- (3) Mr. Sorkin will join the Board of Directors following the closing of the offering.
- (4) Mr. Camp will join the Board of Directors following the closing of the offering.

Gideon Mantel is a co-founder of CommTouch and served as its Chief Financial Officer from its inception in February 1991 until October 1995, when he became CommTouch's Chief Operating Officer. In November 1997, he became CommTouch's Chief Executive Officer. He has also served as a director of CommTouch since inception. Mr. Mantel received a B.A. in Political Science and an M.B.A from Tel Aviv University.

Isabel Maxwell has served as the President of CommTouch Software, Inc. since February 1997. Ms. Maxwell was a co-founder, and from March 1993 to August 1996 served as the Senior Vice President of International Business Development, Corporate Affairs and Investor Relations, of The McKinley Group Inc., an Internet search engine company. From August 1996 to October 1996, Ms. Maxwell was an Executive Vice President of Excite, Inc. Ms. Maxwell received a B.A. and M.A. in History and Modern Languages from Oxford University.

Amir Lev is a co-founder of CommTouch and has served as its Chief Technology Officer and as a director since its inception in 1991. Mr. Lev has also been the General Manager of CommTouch since January 1997. Mr. Lev received a B.A. in Computer Science and Economics from Hebrew University, Jerusalem.

James Collins has served as the Chief Financial Officer of CommTouch since March 1999 and as the Secretary of CommTouch since April 1999. From October 1997 to February 1999, Mr. Collins was a private investor. From March 1992 to December 1996, Mr. Collins served as the Chief Financial Officer and Secretary, and from January 1997 to September 1997 as the Vice President of Operations of Pete's Brewing Company, a specialty brewer. Mr. Collins received a B.S. in Business Administration from the University of the Pacific and is a Certified Public Accountant in the State of California.

Eran Schindler has served as Vice President, Finance of CommTouch since November 1998. From December 1997 to November 1998, Mr. Schindler served as Chief Financial Officer of AutoMedia Ltd., a video and postproduction software company. From December 1996 to October 1997, Mr. Schindler served as Chief Executive Officer and from July 1994 to December 1996 as Chief Financial Officer of Hosen Electrical Appliances Ltd., an importer and marketer of electrical appliances. Mr. Schindler received a B.A. from Haifa University.

Robert "Rip" Gerber has served as Vice President, Marketing of CommTouch Software, Inc. since March 1999. Mr. Gerber was the founder of @once, an email direct marketing company, and from February 1998 to February 1999 served as its president. From September 1995 to January 1998, Mr. Gerber served as Managing Director of Pantheon Consulting Group LLC, a marketing and planning services company. From August 1992 to August 1995, Mr. Gerber was a consultant for Deloitte & Touche LLP, a public accounting firm. Mr. Gerber received a B.S. in Chemical Engineering from the University of Virginia and an M.B.A. from Harvard Business School.

Avner Amram has served as Vice President, Operations of CommTouch Software, Inc. since April 1999. Mr. Amram was Director of Operations of CommTouch Software, Inc. from March 1998 to April 1999 and a Software Team Leader from March 1996 to March 1998. Mr. Amram received a B.Sc. in Computer Science from the Technion, Haifa.

Yael Elish has served as the Vice President, Strategic Development of CommTouch Software, Inc. since April 1999. Ms. Elish was CommTouch's Director of Business Development from August 1998 to March 1999 and was CommTouch's Director of Sales from December 1996 to August 1998. From August 1993 to August 1996, Ms. Elish

was a Marketing Manager of Widecom Ltd., a provider of Internet integration services and software development. Ms. Elish received a B.A. in International Relations from Hebrew University in Jerusalem.

Igor Gusak has served as the Vice President, Sales of CommTouch Software, Inc. since April 1999. Dr. Gusak was the Director of Sales and Marketing of CommTouch from February 1997 to March 1999 and the Director of Original Equipment Manufacturer Sales for CommTouch from January 1995 to January 1997. Dr. Gusak received a Ph.D. in Mathematics from Urals University, Ekaterinburg, Russia.

Yuval Neria has served as the Vice President, International Sales of CommTouch since April 1999. Mr. Neria was the Director of International Marketing and Sales for CommTouch from March 1997 to April 1999, the Director of Pacific Rim Operations for CommTouch from March 1996 to April 1997, a Product Manager for CommTouch from March 1995 to April 1996, and a Quality Assurance Manager for CommTouch from March 1993 to April 1995. Mr. Neria received a B.A. in Computer Science from the City University of New York.

Ronen Rosenblatt has served as the Vice President, Research and Development of CommTouch since April 1999. Mr. Rosenblatt served as the Director of Research and Development for CommTouch from November 1994 to March 1999. Mr. Rosenblatt received a B.Sc. in Electronics and Computer Engineering from Tel Aviv University.

Yiftah Atir has served as a Director of CommTouch since January 1996. From November 1994 to the present, Mr. Atir has served as Managing Director of Evergreen Venture Capital, a technology focused venture capital fund. Mr. Atir received a B.A. from Haifa University and an M.B.A. from Tel Aviv University.

Allan Barkat has served as a Director of CommTouch since February 1996 and Chairman of the Board of Directors since April 1999. From March 1997 to the present, Mr. Barkat has been a Managing Director of Apax-Leumi Partners, Ltd. the investment advisor to Israel Growth Fund, LP, a technology focused venture capital fund. From January 1995 to March 1997, Mr. Barkat served as an Assistant Director of Apax-Leumi Partners Ltd. From 1992 to 1994, Mr. Barkat served as Vice President of Marketing & Sales of DSP Communications Group, Inc., a wireless semiconductor company. Mr. Barkat has also served as a director of Fundtech Ltd. Mr. Barkat received a B.Sc. from the Technion, Haifa.

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Yair Safrai has served as a Director of CommTouch since January 1999. From September 1996 to the present, Mr. Safrai has been the Managing Partner of Concord Ventures, a technology focused venture capital fund. From July 1994 to September 1996, Mr. Safrai served as Vice President of Nitzanim, a venture capital fund. Mr. Safrai received a B.A. in Management and Economics from Tel Aviv University, an M.A. from the University of Pennsylvania, and an M.B.A. from the Wharton Business School, University of Pennsylvania.

Yoseph Sela has served as a Director of CommTouch since February 1996. From January 1993 to the present, Mr. Sela has served as Executive Vice President of Gemini Capital Fund Management, a technology focused venture capital fund. Mr. Sela received a B.Sc. from the Technion, Haifa and an M.B.A. from Tel Aviv University.

Richard Sorkin will join the Board immediately following the closing of the offering. Since June 1998 Mr. Sorkin has served as an advisor to several early-stage Internet companies and is a director of several private companies. From June 1998 to April 1999 he was the Chairman of the Board of Directors of ZIP2, an Internet media company which was sold to Compaq. From May 1996 to June 1998, he was Chief Executive Officer of ZIP2 and from May 1993 to March 1996 he held various executive positions with Creative Technology, Ltd., a leading provider of multi-media hardware. Mr. Sorkin received a B.A. with honors in Economics from Yale University and an MBA from Stanford University.

Thomas Camp will join the Board immediately following the closing of the offering. Since April 1999, Mr. Camp has served as Vice President of Business Development at Go2Net, a network of branded, technology-and community-driven websites. From September 1990 to April 1999, he was an attorney with the law firm of Hutchins, Wheeler & Dittmar, most recently as a stockholder. Mr. Camp received a B.A. from Tufts University, an M.B.A. from Boston College Graduate School of Management and a J.D. from Boston College Law School.

ELECTION OF DIRECTORS

Directors are elected by shareholders at the annual shareholders meeting and hold office until the next Ordinary General Meeting, which is held at least once in every calendar year, but not more than fifteen months after the last preceding Ordinary General meeting. Directors may be removed and other directors may be elected in their place or to fill vacancies in the Board of Directors at any time by the holders of a majority of the voting power at a general meeting of the shareholders. In the intervals between Ordinary General Meetings, the Board of Directors may appoint new directors temporarily to fill vacancies on the Board of Directors. The Articles of Association of CommTouch authorize nine directors. There are no family relationships among any of the directors, officers or key employees of CommTouch.

ALTERNATE DIRECTORS

The Articles of Association of CommTouch provide that any director may appoint another person to serve as an alternate director and may remove such alternate. Any alternate director possesses all the rights and obligations of the director who appointed him, except that the alternate has no standing at any meeting while the appointing director is present, and the alternate is not entitled to remuneration. Any individual, whether or not a director, may act as an alternate director, and the same person may act as the alternate for several directors and have a corresponding number of votes. Unless the appointing director limits the time or scope of the appointment, the appointment is effective for all purposes until the appointing director ceases to be a director or terminates the appointment. The appointment of an alternate director does not in itself diminish the responsibility of the appointing director as a director.

INDEPENDENT DIRECTORS; AUDIT FUNCTION

Under the requirements for quotation on Nasdaq, CommTouch is required to have at least two independent directors on its Board and to establish an audit committee, at least a majority of whose members are independent of management. Messrs. Barkat and Sela, as independent directors, serve as the members of CommTouch's Audit Committee.

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Under Israeli law, "public" Israeli companies are required to appoint at least two directors resident in Israel who meet stringent standards of independence. CommTouch believes that this requirement does not currently apply to companies that are publicly traded only outside of Israel. Nevertheless, CommTouch may be required to appoint such independent directors. Moreover, the new Israeli Companies Law, which will become effective on February 1, 2000, unequivocally extends the independent director requirement to Israeli companies that are publicly traded outside of Israel, such as on Nasdaq.

The new Israeli Companies Law also provides that public companies must appoint an audit committee of the Board of Directors, a certified public accountant to audit the company's financial statements and to report any improprieties that the accountant may discover to the Chairman of the Board, and an internal auditor.

OFFICE HOLDERS

Israeli law codifies the duty of care and fiduciary duties that an Office Holder (generally, a director or executive officer) owes to a company. An Office Holder's fiduciary duty includes avoiding any conflict of interest between the Office Holder's position in CommTouch and his personal affairs, avoiding any competition with CommTouch, avoiding exploiting any business opportunity of CommTouch in order to receive personal advantage for himself or others and revealing to CommTouch any information or documents relating to CommTouch's affairs which the Office Holder has received due to his position as an Office Holder.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee, which was established by the Board in January 1996, is responsible for determining salaries, incentives and other forms of compensation for our directors, officers and other employees and for administering various incentive compensation and benefit plans. The Compensation Committee consists of the Chief Executive Officer and two outside directors.

Allan Barkat and Yoseph Sela are currently the two outside directors on our Compensation Committee.

After the closing of the offering, one of our directors will be Thomas Camp, who is Vice President of Business Development of Go2Net. Conflicts of interest may arise as a consequence of his relationship with Vulcan and Go2Net, including conflicts related to corporate opportunities that could be pursued by us, on the one hand, or by Go2Net, Vulcan or its affiliates, on the other hand, or conflicts related to existing or new contractual relationships between us, on the one hand, or by Go2Net, Vulcan or its affiliates, on the other hand. All future transactions between us and our officers, directors and principal shareholders and their affiliates will be approved by a majority of the board of directors, including a majority of the independent and disinterested outside directors.

COMPENSATION OF OFFICERS AND DIRECTORS

The directors of CommTouch can be remunerated by CommTouch for their services as directors to the extent such remuneration is approved by the CommTouch's shareholders at an annual general meeting. Directors currently do not receive compensation for their services as directors but are reimbursed for their expenses for each Board of Directors meeting attended.

The aggregate direct remuneration paid by CommTouch to all directors and executive officers (11 persons) in 1998 was approximately \$500,000. During the same period CommTouch accrued or set aside approximately \$66,000 for the same group to provide pension, retirement or similar benefits. As of March 31, 1999, directors and executive officers of CommTouch (15 persons) held stock options to purchase an aggregate of 469,520 ordinary shares.

U.S. STOCK OPTION PLAN

Our 1996 CSI Stock Option Plan, which is the plan for U.S. employees and consultants, is administered by our Compensation Committee. Our Compensation Committee consists of at least two directors who are non-employee directors, as that term is defined in Rule 16b-3. The Board of Directors may amend the option plan as desired without further action by CommTouch's shareholders, except as required by applicable law. The plan will continue in effect until terminated by the Board or until January, 2006.

The consideration for each award under the plan is established by the Compensation Committee, and in no event shall the exercise price for ISOs be less than 100% of the fair market value of the underlying stock on the date of grant. Awards have such terms and are exercisable in such manner and at such times

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as the Compensation Committee may determine. Typically, an option granted under the plan vests with respect to one-fourth of the shares subject to the option on the first anniversary of the grant date and with respect to 1/36 of the remaining shares vest each month thereafter. However, the Compensation Committee may, in its discretion, permit an optionee to exercise unvested options, provided that such shares are subjected to a right of repurchase in favor of CommTouch Software, Inc. according to the original vesting schedule. Each ISO expires not more than 10 years from the date of grant.

The 1996 CSI Stock Option Plan had originally reserved 1,000,000 shares for issuance under the plan. In April of 1999, the Board of Directors amended the Plan to provide for a pool of 5,000,000 shares which may be issued under the 1996 CSI Stock Option Plan, the 1999 Israeli Share Option Plan, and the Israeli Option Agreements issued to Israeli employees.

ISRAELI OPTION AGREEMENTS AND 1999 ISRAELI SHARE OPTION PLAN

To date we have granted options to Israeli employees and consultants pursuant to individual option agreements (the "Israeli Option Agreements") rather than pursuant to a stock option plan. Typically, options granted pursuant to the Israeli Option Agreements vest in four equal annual installments and expire no later than ten years from the date of grant. Substantially all of the Israeli Option Agreements provide that only the grantee can exercise options under the Israeli Option Agreements, and the grantee cannot assign or transfer the options. Moreover, if a grantee ceases to be employed by CommTouch on a full time basis, then the grantee will have a limited period from the cessation of

employment in which to exercise any vested options. Grantees are responsible for paying all taxes and mandatory payments upon the exercise of options.

In connection with this offering, the Board of Directors has approved the 1999 Section 3(i) Share Option Plan (the "1999 Israeli Share Option Plan"). The 1999 Israeli Share Option Plan will be administered by the Board of Directors, or by a Share Option Committee appointed by the Board of Directors (currently the Compensation Committee). The Board or the committee has full power to designate the persons entitled to receive options and the terms and provisions of the option agreements (including the number and price of shares subject to each grant and the acceleration of the right of an optionee to exercise in whole or in part any previously granted option). Typically, an option granted under the plan vests with respect to one-fourth of the shares subject to the option on the first anniversary of the grant date and with respect to one-36th of the remaining shares each month thereafter. Options are exercisable only during the lifetime of the optionee, and are not transferable other than by will or laws of descent.

As of March 31, 1999, 694,860 stock options had been granted under Israeli Option Agreements and the 1996 CSI Stock Option Plan. Such options have exercise prices ranging from \$0.01 to \$1.45 per share and a weighted average per share exercise price of \$1.25, and were held by 59 persons.

Certain of the option agreements for options granted to employees (pursuant to the Israeli Option Agreements) and to key employees (pursuant to the 1996 CSI Stock Option Plan) provide for acceleration of vesting in a change of control. Pursuant to these agreements, 50 percent of such an employee's unvested options will vest at the closing of the change of control. In such event, the remainder of the unvested options, if granted pursuant to an Israeli Option Agreement, shall be subject to the vesting provisions set forth in the Israeli Option Agreement, and if granted pursuant to the 1996 CSI Stock Option Plan, shall vest on the first anniversary of the change of control.

The total number of shares which can be issued under our 1999 Israeli Share Option Plan, 1996 CSI Stock Option Plan and the Israeli Option Agreements previously issued to Israeli employees is 5,000,000. Of that number, 694,860 shares are subject to be issued pursuant to outstanding Israeli Option Agreements and 662,680 shares have been issued upon the exercise of stock options. The remaining 3,642,460 shares will be allocated from time to time by the Board of Directors to the 1999 Israeli Share Option Plan and the 1996 CSI Stock Option Plan.

EMPLOYEE STOCK PURCHASE PLAN

Our 1999 Employee Stock Purchase Plan, or ESPP, which was adopted by our board of directors on April 18, 1999 and was approved by our shareholders on June 8, 1999, will take effect upon the closing of this offering. The ESPP provides employees with an opportunity to purchase ordinary shares of

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CommTouch through accumulated payroll deductions. We have reserved 150,000 ordinary shares for issuance under the ESPP, none of which have been issued. The number of ordinary shares reserved shall be increased each January 1 by 110 percent of the number of shares purchased under the ESPP in the previous year. The ESPP is intended to qualify for favorable tax treatment under Section 423 of the Internal Revenue Code. Generally, the ESPP will be implemented through a series of offering periods of 24 months' duration, with new offering periods commencing on the first trading day on or after February 15 and August 15 of each year. However, the first offering period will commence on the first business day on which price quotations for CommTouch's ordinary shares are available on the Nasdaq National Market and will expire on August 14, 2001. Each 24-month Offering Period will contain four six-month Purchase Periods, starting on each February 15 and August 15. However, the first Purchase Period will commence on the first trading day after the closing of the offering and will end on February 14, 2000. Shares may be purchased at the end of each purchase period.

The ESPP will be administered by a plan administrator appointed by our Board of Directors. Each employee of ours or of any majority-owned subsidiary of ours who is customarily employed by us or a majority-owned subsidiary for more than 20 hours per week and more than five months per calendar year will be eligible to participate in the ESPP. No employee shall be permitted to participate in the

ESPP:

- if such employee, immediately after his or her election to participate, would own shares possessing five percent or more of the total combined voting power or value of all classes of stock of the Company; or
- if under the terms of the ESPP the right of the employee to purchase shares would accrue at a rate that exceeds \$25,000 of the fair market value of such shares for each calendar year for which such right is outstanding.

The ESPP permits an eligible employee to purchase ordinary shares through payroll deductions, which may not exceed 15 percent of his or her base compensation, excluding incentive compensation, commissions and other bonuses. The shares are purchased at a price equal to 85 percent of the lesser of:

- the fair market value of the ordinary shares at the beginning of the offering period (provided, however, in the case of the first offering period, this number shall be the price per share at which the ordinary shares are offered to the public in this offering); or
- the fair market value of the ordinary shares at the end of each purchase period.

Employees may terminate their participation in the ESPP at any time during the offering period; they may change their level of participation in the ESPP only one time during the offering period. Participation in the ESPP terminates automatically on the participant's termination of employment with us.

In the event of a merger, consolidation, dissolution or liquidation of the Company, the ESPP shall terminate unless the plan of merger, consolidation or reorganization provides otherwise. The Board of Directors shall have the right to amend, modify or terminate the ESPP at any time, except in cases where shareholder approval is required by law.

1999 NONEMPLOYEE DIRECTORS STOCK OPTION PLAN

Our 1999 Nonemployee Directors Stock Option Plan (Directors Plan), which was adopted by our board of directors on April 18, 1999 and was approved by our shareholders on June 8, 1999, will take effect upon the closing of this offering. Under the 1999 Nonemployee Directors Stock Option Plan, nonemployee members of the board of directors will be eligible for automatic option grants. The Directors Plan will continue in effect until terminated by the Board or until the tenth anniversary of its effective date.

A maximum of 250,000 ordinary shares has been authorized for issuance under the Directors Plan. No shares have yet been issued under the Directors Plan. The Board of Directors, or a committee consisting of at least two nonemployee directors, will make all administrative determinations under the Directors Plan.

Each individual who first joins the Board of Directors as a nonemployee director on or after the effective date of this offering will receive at that time an option grant for 10,000 ordinary shares. In addition, on the date of the first board meeting immediately following the annual shareholders meeting, commencing with the annual shareholders meeting held in 2000, the Company shall grant to each nonemployee director then in office (other

than nonemployee directors who received their initial 10,000 share grant under the plan on or after the record date for such annual meeting) an option to purchase 10,000 ordinary shares. In 1999, the grant shall be made on the first business day on which price quotations for CommTouch's ordinary shares are available on the Nasdaq National Market, and the fair market value of the ordinary shares on that day shall be the price at which ordinary shares were offered to the public on that day. Each option granted under the Directors Plan shall become exercisable with respect to one fourth of the number of shares covered by such option three months after the date of grant and with respect to one third of the remaining shares subject to the option every three months thereafter. Each option will have an exercise price equal to the fair market value of the ordinary shares on the grant date of such option. Each option will have a maximum term of ten years, but will terminate earlier if the optionee ceases to be a member of the Board of Directors. In the event of such earlier

termination, an optionee may exercise options held at the date of termination to the extent then exercisable, within three months after such date, but not thereafter; provided, however, the optionee has two years from the date of termination to exercise vested options if such termination is due to death or disability. Each option will vest automatically upon a change in control.

401(K) PLAN

In the near future, the Company intends to adopt the CommTouch Software, Inc. 401(k) Savings Plan (the "401(k) Plan"), which is intended to qualify under Section 401 of the Internal Revenue Code of 1986, as amended. All employees of CommTouch Software, Inc. will be eligible to participate in the 401(k) Plan at any time after their date of hire. Participants may make pre-tax contributions to the 401(k) Plan of up to 20% of their gross wages, subject to a statutory prescribed annual limit. Each participant will be fully vested in his or her contributions. The Company may make matching contributions on a discretionary basis to fund the 401(k) Plan. Any employer contributions would be vested under a 6-year graded schedule. Contributions by the Company, if any, will be generally deductible by the Company when made. Contributions by the participants or the Company to the 401(k) Plan and the income earned on such contributions will be held in trust as required by law. Individual participants may direct the trustee to invest their accounts in authorized investment alternatives.

APPROVAL OF CERTAIN TRANSACTIONS

Israeli law requires that transactions between a company and its Office Holders (or that benefit its Office Holders) be approved as provided for in the company's articles of association. Approval by a majority of the disinterested members of the audit committee and of the board of directors is generally required, and in certain circumstances shareholder approval may also be required.

Israeli law requires that an Office Holder of a company first promptly disclose any personal interest that he may have and all related material information known to him, in connection with any existing or proposed transaction by the company. Once the Office Holder complies with these disclosure requirements, the company may approve the transaction in accordance with the provisions of its articles of association. If the transaction is with a third party in which the Office Holder has a personal interest, the approval must confirm that the transaction is not adverse to the company's interest. Furthermore, if the transaction is an extraordinary transaction (that is, a transaction other than in the ordinary course of business, otherwise than on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities), then, in addition to any approval stipulated by the articles of association, it also must be approved by the company's audit committee and then by its board of directors. Under certain circumstances, shareholder approval is required. For example, shareholders must approve all compensation paid to directors in whatever capacity. An Office Holder with a personal interest in any matter may not be present at any audit committee or Board of Directors meeting where such matter is being approved, and may not vote. For information concerning the direct and indirect personal interests of certain Office Holders and principal shareholders of CommTouch in certain transactions with CommTouch, see "Certain Transactions."

The new Israeli Companies Law, which will become effective on February 1, 2000, extends the disclosure requirements applicable to an Office Holder to a shareholder that holds 25% or more of the voting rights in a public company, including an Israeli company that is publicly traded outside of Israel such as on Nasdaq. Certain transactions between a public company and a 25% shareholder, or transactions in which a 25% shareholder of the company has a personal interest but which are between a public company and

another entity, require the approval of the Board of Directors and of the shareholders. Moreover, an extraordinary transaction with a 25% shareholder or the terms of compensation of a 25% shareholder must be approved by the audit committee, the Board of Directors and shareholders. The shareholder approval for an extraordinary transaction must include at least one third of the shareholders who have no personal interest in the transaction and are present at the meeting; the transaction can be approved by shareholders without this one third approval, if the total share holdings of those who vote against the transaction do not represent more than one percent of the voting rights in the company.

INDEMNIFICATION OF DIRECTORS AND OFFICERS; LIMITATIONS ON LIABILITY

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, a company can indemnify an Office Holder for monetary liability in connection with his activities as an Office Holder.

The Articles of Association of CommTouch allow CommTouch to insure and indemnify Office Holders to the fullest extent permitted by law.

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

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

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CERTAIN TRANSACTIONS

RELATIONSHIP WITH GO2NET

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

In connection with entering into the email services agreement, we will issue to

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

Concurrently with our entering into the email services agreement, we will issue \$13,333,328 in ordinary shares to Go2Net and \$6,666,672 in ordinary shares to Vulcan Ventures in a private placement at \$14.88 per share.

We have agreed to register the shares and warrants described above promptly after the closing of this offering. If the registration is not effective as of the expiration of the 180-day lock-up period, the exercise price of Go2Net warrants will be reduced to \$10.51.

In connection with these transactions, we have agreed to pay U.S. Bancorp Piper Jaffray an advisory fee of \$550,000 under the terms of an engagement letter agreement dated as of July 8, 1999.

ORDINARY SHARE FINANCINGS

Mr. Yiftah Atir, a director of CommTouch, is a Managing Director of Evergreen Canada Management Ltd., the general partner of Harbour Vest-Evergreen L.P. Pursuant to several Share Purchase Agreements we issued and sold ordinary shares to Evergreen Canada Israel Investments and Company Ltd., Yarok Ad Fund Investment Partnership L.P. and Gmul Investment Company Ltd (the "Evergreen Investors"). These shares were subsequently converted into Series A Convertible Preferred Shares and certain of these shares were transferred to HarbourVest-Evergreen L.P.

PREFERRED SHARE FINANCINGS

Series B Convertible Preferred Shares. Mr. Yoseph Sela, a director of CommTouch, is an Executive Vice President of Gemini Capital Fund Management, which manages Gemini Israel Fund L.P. ("GIF"), and Mr. Allan Barkat, also a director of CommTouch, is a Managing Director of Apax-Leumi Partners, which is the investment advisor to Israel Growth Fund L.P. ("IGF"). Pursuant to a Preferred Share Purchase Agreement entered into in January 1996, we issued and sold 51,085 Series B Convertible Preferred Shares and 13,873 warrants for Series B Convertible Preferred Shares to IGF, GIF, Dr. Ed Mlavsky, Mr. Yosef Sela, and certain of the Evergreen Investors for a total investment of approximately \$2,250,000. The Evergreen Investors subsequently transferred their shares to HarbourVest Evergreen L.P.

Series C Convertible Preferred Shares. Mr. Yair Safrai, a director of CommTouch, is a Managing Partner of Concord Ventures, which manages the Concord Funds (as defined below). Pursuant to Preferred Share

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Letter Agreements entered into in December 1998 and February 1999, we issued and sold (i) 41,570 Series C Convertible Preferred Shares to k.t. Concord Venture Fund (Cayman) L.P., k.t. Concord Venture Fund (Israel) L.P., k.t. Concord Venture Advisors (Cayman) L.P. and k.t. Concord Venture Advisors (Israel) L.P., (the "Concord Funds") for a total investment of approximately \$3,000,000; (ii) 16,249 Series C Convertible Preferred Shares to IGF for a total investment of approximately \$1,173,000; and (iii) 12,779 Series C Convertible Preferred Shares to GIF for approximately \$922,000.

OPTION EXERCISES AND PURCHASES OF SHARES SUBJECT TO REPURCHASE BY CERTAIN OFFICERS

Gideon Mantel is the Chief Executive Officer and a Director of CommTouch. On March 17, 1999, Mr. Mantel exercised certain options granted to him by CommTouch. In consideration for the Ordinary Shares purchased pursuant to the exercise of the options, he provided CommTouch with a full-recourse promissory note dated March 17, 1999 in the original principal amount of \$341,272. The promissory note bears interest at 4.83%, with payments of interest only due on December 31 of each year and with the balance due and payable on the fourth anniversary of the date of the promissory note. This loan was used by Mr. Mantel to purchase 286,120 ordinary shares of CommTouch at a weighted average purchase price of \$1.19 per share. The promissory note is secured by a pledge of the stock purchased.

Isabel Maxwell is the President of CommTouch Software, Inc. On March 17, 1999,

Ms. Maxwell exercised certain options granted to her by CommTouch. As consideration for the Ordinary Shares purchased pursuant to the exercise of the options, she provided CommTouch with a full-recourse promissory note dated March 17, 1999 in the original principal amount of \$295,858. The promissory note bears interest at 4.83%, with payments of interest only due on December 31 of each year and with the balance due and payable on the fourth anniversary of the date of the promissory note. This loan was used by Ms. Maxwell to purchase 204,040 Ordinary Shares of CommTouch at a purchase price of \$1.45 per share. The promissory note is secured by a pledge of the stock purchased.

James Collins is the Chief Financial Officer of CommTouch. On March 17, 1999, Mr. Collins exercised certain options granted to him by CommTouch. As consideration for the Ordinary Shares purchased pursuant to the exercise of the options, Mr. Collins provided CommTouch with a full-recourse promissory note dated March 17, 1999 in the original principal amount of \$137,112. The promissory note bears interest at 4.83% with payments of interest only due on December 31 of each year and with the balance due and payable on the fourth anniversary of the date of the promissory note. This loan was used by Mr. Collins to purchase 94,560 ordinary shares of CommTouch at a purchase price of \$1.45 per share. The promissory note is secured by a pledge of the stock purchased.

Robert "Rip" Gerber is the Vice President of Marketing of CommTouch Software, Inc. On March 17, 1999, Mr. Gerber exercised certain options granted to him by CommTouch. As consideration for the Ordinary Shares purchased pursuant to the exercise of the options, Mr. Gerber provided CommTouch with a promissory note dated March 17, 1999 in the original principal amount of \$103,617. The full-recourse promissory note bears interest at 4.83% with payments of interest only due on December 31 of each year and with the balance due and payable on the fourth anniversary of the date of the promissory note. This loan was used by Mr. Gerber to purchase 71,460 ordinary shares of CommTouch at a purchase price of \$1.45 per share. The promissory note is secured by a pledge of the stock purchased.

LOAN TO DR. NAHUM SHARFMAN AND RELATIONSHIP AMONG COMMTOUCH AND DEALTIME.COM LTD., DR. NAHUM SHARFMAN AND AMIR ASHKENAZI

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

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

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

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

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

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

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding beneficial ownership of ordinary shares as of March 31, 1999 by:

- each person or entity known to CommTouch to own beneficially more than five percent of CommTouch's ordinary shares,
- each of our directors and officers known to CommTouch to own beneficially more than one percent of CommTouch's ordinary shares, and
- all executive officers and directors as a group,

on a pro forma basis to reflect (1) the subsequent issuance of 42,081 Series D Convertible Preferred Shares, (2) the concurrent private placement, (3) the exercise of the warrants for 1,136,000 ordinary shares issued to Go2Net and (4) the automatic conversion upon completion of this offering of all outstanding preferred shares into ordinary shares

NAME AND ADDRESS OF BENEFICIAL OWNER -----	TOTAL SHARES BENEFICIALLY OWNED(1) -----	PERCENTAGE OF ORDINARY SHARES (1)	
		BEFORE OFFERING -----	AFTER OFFERING -----
Thomas Camp(2)..... c/o Go2Net, Inc. 999 3rd Avenue, Suite 4700 Seattle, WA 98104	2,032,057	--	13.8%
Yiftah Atir..... HarbourVest-Evergreen L.P.(3) 55 St. Claire Avenue West, Suite 225 Toronto, Ontario M4V 247	1,429,040	15.4%	10.5%
Allan Barkat..... Israel Growth Fund L.P.(4) c/o Apax-Leumi Inc. 15 Portland Place London, England	1,211,260	12.9%	8.9%
Yoseph Sela..... Entities affiliated with Gemini Israel Fund L.P.(5) 11 Galgaley Haplada St. Bldg. 3 P.O. Box 12226, Herzelia 46733 Israel	838,780	9.1%	6.2%
Yair Safrai.....	831,400	9.0%	6.1%

Entities affiliated with Concord Group(6)			
11 Galgaley Haplada St. Bldg. 3			
P.O. Box 12226, Herzelia			
46733 Israel			
Nahum Sharfman.....	788,420	8.5%	5.8%
22 Hameyasdim St., Karkur			
37064 Israel			
Gideon Mantel(7).....	501,140	5.4%	3.7%
c/o CommTouch Software, Inc.			
3945 Freedom Circle, Suite 730			
Santa Clara, California 95054			
Amir Lev(8).....	407,120	4.3%	3.0%
c/o CommTouch Software Ltd.			
10 Technology Avenue			
Ein Vered 40696, Israel			
Isabel Maxwell(9).....	204,040	2.2%	1.5%
c/o CommTouch Software, Inc.			
3945 Freedom Circle, Suite 730			
Santa Clara, California 95054			

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NAME AND ADDRESS OF BENEFICIAL OWNER -----	TOTAL SHARES BENEFICIALLY OWNED(1) -----	PERCENTAGE OF ORDINARY SHARES (1) -----	
		BEFORE OFFERING -----	AFTER OFFERING -----
James Collins(10)..... c/o CommTouch Software, Inc. 3945 Freedom Circle, Suite 730 Santa Clara, California 95054	94,560	1.0%	0.7%
All directors and executive officers as a group (17 persons).....	7,669,897	60.7%	55.2%

(1) Assumes no exercise of the underwriters' over-allotment option. Applicable percentage ownership is based on 9,258,120 ordinary shares outstanding as of March 31, 1999 and 14,132,215 shares outstanding immediately following completion of this offering. Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission. Includes shares subject to options exercisable within 60 days after March 31, 1999 as if such shares were outstanding on March 31, 1999 and assumes that no other person has exercised any outstanding options. Except as pursuant to applicable community property laws, each shareholder named in the table has sole voting and investment power with respect to the shares set forth opposite such shareholder's name.

(2) Represents 896,057 shares to be purchased in the private placement by Go2Net and 1,136,000 shares exercisable under a warrant granted to Go2Net. Mr. Camp, who will be a director of the Company after the closing of the offering, is the Vice President for Business Development of Go2Net, and as such, may be deemed to beneficially own such shares. Mr. Camp disclaims beneficial ownership of all such ordinary shares. Excludes 448,029 shares to be purchased in the private placement by Vulcan Ventures, which beneficially owns 33.95% of Go2Net. William D. Savoy, Vice-President of Vulcan Ventures, is a member of the board of directors of Go2Net.

(3) Represents 1,429,040 ordinary shares owned by HarbourVest-Evergreen L.P. Mr. Atir, a director of the Company, is the Managing Director of Evergreen Canada Management Ltd., the general partner of HarbourVest-Evergreen L.P. and, as such, may be deemed to beneficially own such ordinary shares. Mr. Atir disclaims beneficial ownership of all such ordinary shares except to the extent of his proportional interest therein.

- (4) Represents 1,211,260 ordinary shares owned by Israel Growth Fund, L.P., which is advised by Apax-Leumi Partners, its investment advisor. Such figure includes 100,940 shares issuable upon exercise of a warrant at the closing of the offering. Mr. Barkat, a director of the Company, is the Managing Director of Apax-Leumi Partners and, as such, may be deemed to beneficially own such ordinary shares. Mr. Barkat disclaims beneficial ownership of all such ordinary shares except to the extent of his proportional interest therein.
- (5) Represents 660,420 ordinary shares owned by Gemini Israel Fund L.P. ("GIF"), 166,280 ordinary shares owned by Gemini Israel II Parallel Fund L.P. ("GIPF"), 6,040 ordinary shares owned by Yoseph Sela and 6,040 ordinary shares owned by Dr. Ed Mlavsky, the President of Gemini Capital Fund Management, which manages GIF and GIPF. Mr. Sela, a director of the Company, is the Executive Vice President of Gemini Capital Fund Management, and, as such, may be deemed to beneficially own such ordinary shares. Mr. Sela disclaims beneficial ownership of all of Dr. Mlavsky's ordinary shares and of all of the ordinary shares owned by GIF and GIPF except to the extent of his proportional interests therein.
- (6) Includes 687,280 ordinary shares owned by k.t. Concord Venture Fund (Cayman), L.P. ("CVF"), 137,400 ordinary shares owned by k.t. Concord Venture Fund (Israel), L.P. ("CVF Israel"), 5,620 ordinary shares owned by k.t. Concord Venture Advisors (Cayman), L.P. ("CVA"), and 1,100 ordinary shares owned by k.t. Concord Venture Advisors (Israel), L.P. ("CVA Israel"). Mr. Safrai, a director of the Company, is the Managing Partner of Concord Ventures, which manages CVF, CVF Israel, CVA and CVA Israel, and, as such, may be deemed to beneficially own such ordinary shares. Mr. Safrai disclaims beneficial ownership of all such ordinary shares except to the extent of his proportional interest therein.
- (7) Certain of such shares are subject to a right of repurchase in favor of CommTouch Software, Inc. Does not include 80,000 ordinary shares subject to an option granted to Mr. Mantel under the 1996 CSI Stock Option Plan on April 23, 1999, with an exercise price of \$15.75 per share. The option will vest with respect to one-fourth of the shares on April 23, 2000, and with respect to 1/36 of the remaining shares each month thereafter.
- (8) Does not include 50,000 ordinary shares subject to an option granted to Mr. Lev under an Israeli Option Agreement on April 23, 1999, with an exercise price of \$15.75 per share. The option will vest with respect to one-fourth of the shares on April 23, 2000, and with respect to 1/36 of the remaining shares each month thereafter.
- (9) Certain of such shares are subject to a right of repurchase in favor of CommTouch Software, Inc. Does not include 5,000 ordinary shares subject to an option granted to Ms. Maxwell under the 1996 CSI Stock Option Plan on April 23, 1999, with an exercise price of \$15.75 per share. The option will vest with respect to one-fourth of the shares on April 23, 2000, and with respect to 1/36 of the remaining shares each month thereafter.
- (10) Certain of such shares are subject to a right of repurchase in favor of CommTouch Software, Inc. Does not include 10,000 ordinary shares subject to an option granted to Mr. Collins under the 1996 CSI Stock Option Plan on April 23, 1999, with an exercise price of \$15.75 per share. The option will vest with respect to one-fourth of the shares on April 23, 2000, and with respect to 1/36 of the remaining shares each month thereafter.

DESCRIPTION OF SHARE CAPITAL

DESCRIPTION OF SHARES

Set forth below is a summary of the material provisions governing our share capital. This summary is not complete and should be read together with our Memorandum of Association and Articles of Association, copies of which have been filed as exhibits to the Registration Statement of which this prospectus forms a part.

As of March 31, 1999, our authorized share capital consisted of 10,683,600 ordinary shares, NIS 0.05 par value and 200,000 Series A Convertible Preferred Shares, 200,000 Series B Convertible Preferred Shares and 165,820 Series C

Convertible Preferred Shares, (collectively, the Convertible Preferred Shares), NIS 1.0 par value. As of March 31, 1999, there were 2,148,320 ordinary shares, 97,878 Series A Convertible Preferred Shares, (convertible into 1,957,560 ordinary shares) 62,438 Series B Convertible Preferred Shares (convertible into 1,248,760 ordinary shares) and 153,093 Series C Convertible Preferred Shares (convertible into 3,061,860 ordinary shares) issued and outstanding. In April 1999 we issued \$13.2 million worth of Convertible Promissory Notes that have since converted into 42,081 Series D Convertible Preferred Shares. Each preferred share will convert automatically into 20 ordinary shares upon the closing of the offering. In connection with this offering our shareholders have approved an increase in our authorized share capital, and the number of ordinary shares authorized has been increased to 40,000,000. At the closing of the offering, 13,602,206 ordinary shares will be issued and outstanding (14,052,206 ordinary shares if the Underwriters' over-allotment option is exercised in full). No preferred shares will be outstanding after the Offering.

DESCRIPTION OF ORDINARY SHARES

All issued and outstanding ordinary shares of CommTouch are, and the ordinary shares offered hereby when issued and paid for will be, duly authorized and validly issued, fully paid and nonassessable. The ordinary shares do not have preemptive rights. Neither the Memorandum of Association or Articles of Association of CommTouch nor the laws of the State of Israel restrict in any way the ownership or voting of ordinary shares by non-residents of Israel, except with respect to subjects of countries which are in a state of war with Israel.

DIVIDEND AND LIQUIDATION RIGHTS

The ordinary shares offered by this prospectus, when issued, will be entitled to their full proportionate of any cash or share dividend declared from the date of the consummation of the offering.

Subject to the rights of the holders of shares with preferential or other special rights that may be authorized, the holders of ordinary shares are entitled to receive dividends in proportion to the sums paid up or credited as paid up on account of the nominal value of their respective holdings of the shares in respect of which the dividend is being paid (without taking into account the premium paid up on the shares) out of assets legally available therefor and, in the event of our winding up, to share ratably in all assets remaining after payment of liabilities in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made, subject to applicable law. Our Board of Directors may declare interim dividends and recommend a final annual dividend only out of profits and in such amounts as the Board of Directors may determine. Declaration of the final annual dividend requires shareholder approval at a general meeting, which may reduce but not increase such dividend from the amount recommended by the Board of Directors. See "Dividend Policy."

In case of a share dividend, holders of shares can receive shares of a class whether such class existed prior thereto or was created therefor or shares of the same class that conferred upon the holders the right to receive such dividend.

VOTING, SHAREHOLDER MEETINGS AND RESOLUTIONS

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such rights may be affected by the future grant of any special voting rights to the holders of a class of shares with preferential rights. As of the closing of this offering, all of the outstanding preferred shares will convert into ordinary shares, and there will be no authorized but unissued shares with preferential rights over the ordinary shares. Any change in the registered capital of CommTouch, including the creation of a new class of shares with rights superior or inferior to existing classes of shares may be adopted by a "special resolution" (the resolution of the holders of 75 percent or more of the shares participating in a general meeting). Once the creation of a class of shares with preference rights has been approved, the Board of Directors may issue preferred shares, unless the Board is limited from doing so by the Articles of Association or a contractual provision.

An annual general meeting must be held once every calendar year at such time (not more than 15 months after the last preceding annual general meeting) and at

such place, either within or outside the State of Israel, as may be determined by the Board of Directors. The quorum required for a general meeting of shareholders consists of at least two shareholders present in person or by proxy and holding, or representing, more than one-third of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum may be adjourned to the same day in the next week at the same time and place, or to such time and place as the Chairman may determine with the consent of the holders of a majority of the shares present in person or by proxy and voting on the question of adjournment. At such reconvened meeting any two shareholders present in person or by proxy (and not in default under the articles) will constitute a quorum.

Most shareholder resolutions, including resolutions for the election of directors, the declaration of dividends, the appointment of auditors or the approval of transactions with Office Holders as required by the Companies Ordinance (See "Management -- Approval of Certain Transactions"), will be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting, in person or by proxy, and voting thereon. Certain corporate actions such as:

- amending the Articles of Association;
- amending the Memorandum of Association;
- changing our name;
- making changes in the capital structure of CommTouch, such as a reduction of capital, increase of capital or share split;
- merger or consolidation;
- voluntary winding up; and
- authorizing a new class of shares or changing special rights of a class of shares

must be approved by a "special resolution" and will be deemed adopted only if approved by the holders of not less than 75 percent of the voting power represented in person or by proxy at the meeting and voting thereon, and in some cases 75 percent of the voting power of the affected class of shares.

Upon completion of this offering and the private placement, our executive officers, directors, affiliates of directors and five percent or greater shareholders will own beneficially an aggregate of approximately 60.7 percent of the Company's outstanding ordinary shares (approximately 58.2 percent if the underwriters' over-allotment option is exercised in full). See "Principal Shareholders."

TRANSFER OF SHARES AND NOTICES

Fully paid ordinary shares are issued in registered form and may be transferred freely. Each shareholder of record is entitled to receive at least seven days' prior notice of shareholder meetings. A special resolution can be adopted only if shareholders are given 21 days' prior notice of the meeting at which such resolution

will be voted on (unless all shareholders entitled to vote agree that the meeting may be held on a shorter notice period). For purposes of determining the shareholders entitled to notice and to vote at such meeting, the Board of Directors may fix the record date not exceeding less than 24 days prior to the date of any general meeting.

MODIFICATION OF CLASS RIGHTS

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by our Articles of Association) may be modified or abrogated by CommTouch by a special resolution subject to the consent in writing of the holders of the issued shares of the class, or by the adoption of a special resolution passed at a separate general meeting of the holders of the shares of such class.

DESCRIPTION OF WARRANTS

As of March 31, 1999, CommTouch has outstanding warrants to purchase 13,873 Series B Convertible Preferred Shares held by investors at a weighted average exercise price of \$44.04, which warrants expire at the closing of an initial public offering. We also have outstanding warrants to purchase 568 Series B Convertible Preferred Shares issued to Imperial Bank and Imperial Bancorp and warrants to purchase a total of 350 Series B Convertible Preferred Shares issued to various consultants, which warrants expire on various dates in 2002. We also have outstanding warrants to issue 346 Series C Convertible Preferred Shares issued to Imperial Bank and Imperial Bancorp, and warrants to purchase a total of 543 Series C Convertible Preferred Shares issued to various consultants, of which 300 warrants expire on December 2002 and 243 warrants expire on July 2005. We granted Bank Lepituach Ha Taasia warrants, exercisable for three years at the nominal price of NIS 0.05 for each share, with the number of warrants linked to the amount of the credit made available by the bank under this warrant. As of March 31, 1999, Bank Lepituach Ha Taasia had warrants to purchase 92,340 ordinary shares. In April 1999 CommTouch paid in full the outstanding balance under its line of credit with Bank Lepituach Ha Taasia and does not intend to draw on this line of credit in the future.

In connection with the Customized Email Service Agreement to be entered into between CommTouch and Go2Net, CommTouch will issue to Go2Net fully vested, non-forfeitable, warrant to purchase 1,136,000 ordinary shares at a per-share exercise price of \$12.80, subject to adjustment as provided in the warrant. The warrants will be exercisable at any time after the offering; provided, however, that Go2Net will enter into a lock-up agreement in which it will agree not to sell any shares acquired upon exercise of the warrants for 180 days after the date of this prospectus. The warrants will be exercisable pursuant to a cashless exercise based on the average closing price of the ordinary shares for the five days preceding the exercise. The warrant will be transferable to any affiliate of Go2Net (including Vulcan) and to any successor to substantially all its business or assets. The Company is extending registration rights to Go2Net covering the shares issuable upon exercise of the warrants. The warrants will expire on the fifth anniversary of issuance.

REGISTRATION RIGHTS

The holders of convertible preferred shares convertible into 7,109,800 ordinary shares (the "Registrable Securities") have certain rights to register those shares under the Securities Act. If requested by holders of a majority of the Registrable Securities after the second anniversary of the date of this offering, CommTouch must file a registration statement under the Securities Act covering all Registrable Securities requested to be included by all holders of such Registrable Securities. CommTouch may be required to effect up to two such registrations. CommTouch has the right to delay any such registration for up to 120 days under certain circumstances, but not more than once during any 12-month period.

In addition, if CommTouch proposes to register any of its ordinary shares under the Securities Act other than in connection with a company employee benefit plan or a corporate reorganization pursuant to Rule 145 under the Securities Act, or a registration on any registration form that does not permit secondary sales or does not include substantially the same information as would be required to be included

in a registration statement covering the sale of Registrable Securities, the holders of Registrable Securities may require CommTouch to include all or a portion of their shares in such registration, although the managing underwriter of any such offering has certain rights to limit the number of shares in such registration.

Further, a majority of the holders of Registrable Securities may require CommTouch to register all or any portion of their Registrable Securities on Form F-3 when such form becomes available to CommTouch, subject to certain conditions and limitations. All expenses incurred in connection with all registrations (other than fees, expenses and disbursements of counsel retained by the holders of the Registrable Shares, and underwriters' and brokers' discounts and commissions) will be borne by CommTouch.

The registration rights described in the preceding three paragraphs expire five years after the closing date of this Offering.

The Company is extending registration rights to Go2Net and to Vulcan Ventures. These rights allow Go2Net and Vulcan to require the Company to register the shares which they are purchasing simultaneously in the concurrent private placement. The rights also permit Go2Net to require the Company to register the warrants and the shares issuable upon exercise of the warrants which the Company is granting to Go2Net. If the Company is unable to cause a registration statement for these shares to become effective as of the expiration of the 180-day lock-up period, the exercise price of the warrants will be reduced to \$10.51 per share.

All of the holders of Registrable Securities have agreed that they will not exercise any right with respect to any registration for a period of 180 days after the date of this prospectus, without the prior written consent of US Bancorp Piper Jaffray.

ACCESS TO INFORMATION

We file reports with the Israeli Registrar of Companies regarding our registered address, our registered capital, our shareholders of record and the number of shares held by each, the identity of the directors and details regarding security interests on our assets. In addition, CommTouch must file with the Registrar of Companies its Articles of Association and a copy of any special resolution adopted by a general meeting of shareholders. The information filed with the Registrar of Companies is available to the public. In addition to the information available to the public, our shareholders are entitled, upon request, to review and receive copies of all minutes of meetings of our shareholders.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our ordinary shares is Norwest Bank Minnesota, N.A.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering and the concurrent private placement, CommTouch will have outstanding 13,602,206 ordinary shares based upon shares outstanding at April 22, 1999, assuming no exercise of the underwriters' over-allotment option and assuming conversion of the convertible preferred shares into 7,109,800 ordinary shares upon the closing of this offering. Excluding the 3,000,000 ordinary shares offered hereby, and assuming no exercise of the underwriters' over-allotment option, as of the effective date of the prospectus, there will be 11,738,206 ordinary shares outstanding, all of which are "restricted" shares under the Securities Act. All restricted shares are subject to lock-up agreements with the underwriters pursuant to which the holders of the restricted shares have agreed not to sell, pledge or otherwise dispose of such shares for a period of 180 days after the date of this prospectus. U.S. Bancorp Piper Jaffray may release the shares subject to the lock-up agreements in whole or in part at any time with or without notice. However, U.S. Bancorp Piper Jaffray has no current plans to do so.

The following table indicates approximately when the 11,738,206 ordinary shares of CommTouch that are not being sold in the offering but which will be outstanding at the time the offering is complete will be eligible for sale into the public market:

ELIGIBILITY OF RESTRICTED SHARES FOR SALE IN PUBLIC MARKET

At effective Date.....	0
180 days after Effective Date.....	6,839,948
After 180 days post-effective date.....	4,898,258

Most of the restricted shares that will become available for sale in the public

market beginning 180 days after the effective date will be subject to certain volume and other resale restrictions pursuant to Rule 144 because the holders are affiliates of CommTouch. The general provisions of Rule 144 are described below.

In general, under Rule 144, an affiliate of CommTouch, or person (or persons whose shares are aggregated) who has beneficially owned restricted shares for at least one year, will be entitled to sell in any three-month period a number of shares that does not exceed the greater of

- 1% of the then outstanding ordinary shares (approximately 131,022 shares immediately after this offering and the concurrent private placement) or
- the average weekly trading volume during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales pursuant to Rule 144 are subject to certain requirements relating to manner of sale, notice and availability of current public information about CommTouch. A person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of CommTouch any time during the 90 days immediately preceding the sale and who has beneficially owned his or her shares for at least two years is entitled to sell such shares pursuant to Rule 144(k) without regard to the limitations described above. 1,728,040 of the restricted shares may be resold under Rule 144(k) beginning 180 days after the effective date of the offering.

The holders of convertible preferred shares convertible into 7,109,800 ordinary shares, Go2Net and Vulcan Ventures as holders of 1,344,086 ordinary shares issued in the private placement and Go2Net as holder of warrant for 1,136,000 ordinary shares, have certain rights to register those shares under the Securities Act, pursuant to registration rights agreements entered into between CommTouch and those holders.

In addition to the restriction imposed by the securities laws, 662,680 of the restricted shares were issued to certain employees of CommTouch pursuant to restricted stock agreements. Pursuant to the provisions of these agreements, CommTouch Software, Inc. has a repurchase option on any unvested shares. CommTouch Software, Inc.'s repurchase option with respect to such shares lapses ratably over time. At

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the 180th day after the effective date, approximately 420,600 of those shares will remain subject to the repurchase option.

As of April 22, 1999, 1,000,000 shares were reserved for issuance under our stock option plans, of which options to purchase 694,860 shares were then outstanding. Beginning 180 days after the effective date, approximately 289,785 shares issuable upon the exercise of vested options will become eligible for sale.

In June 1999, our shareholders approved:

- an increase of 4,000,000 shares in the number of ordinary shares reserved under the stock option plans,
- a reserve of 250,000 shares for options under the Directors Plan and
- a reserve of 150,000 shares under the ESPP

We intend to file, within 180 days after the date of this prospectus, a Form S-8 registration statement under the Securities Act to register shares issued in connection with option exercises and shares reserved for issuance under all stock plans. Ordinary shares issued upon exercise of options after the effective date of the Form S-8 will be available for sale in the public market, subject to Rule 144 volume limitations applicable to affiliates and to lock-up agreements.

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U.S. TAX CONSIDERATIONS REGARDING ORDINARY SHARES
ACQUIRED BY U.S. TAXPAYERS

The following discussion summarizes the material U.S. federal income tax consequences arising from the purchase, ownership and sale of the ordinary shares. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), final, temporary and proposed U.S. Treasury Regulations promulgated thereunder, and administrative and judicial interpretations thereof, in effect as of the date of this prospectus, all of which are subject to change, possibly with retroactive effect. CommTouch will not seek a ruling from the Internal Revenue Service with regard to the United States federal income tax treatment relating to investment in the ordinary shares and, therefore, no assurance exists that the Internal Revenue Service will agree with the conclusions set forth below. The summary below does not purport to address all federal income tax consequences that may be relevant to particular investors. This summary does not address the consequences that may be applicable to particular classes of taxpayers, including investors that hold ordinary shares as part of a hedge, straddle or conversion transaction, insurance companies, banks or other financial institutions, broker-dealers, tax-exempt organizations and investors who own (directly, indirectly or through attribution) 10% or more of CommTouch's outstanding voting stock. Further, it does not address the alternative minimum tax consequences of an investment in ordinary shares or the indirect consequences to U.S. Holders, as defined below, of equity interests in investors in ordinary shares. This summary is addressed only to holders that hold ordinary shares as a capital asset within the meaning of Section 1221 of the Code, are U.S. citizens, individuals resident in the United States for purposes of U.S. federal income tax, domestic corporations or partnerships and estates or trusts treated as "United States persons" under Section 7701 of the Code ("U.S. Holders").

EACH INVESTOR SHOULD CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND SALE OF ORDINARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE STATE, LOCAL, FOREIGN OR OTHER TAX LAWS AND POSSIBLE CHANGES IN THE TAX LAWS.

TAX BASIS OF ORDINARY SHARES

A U.S. Holder's tax basis in his or her ordinary shares will be the purchase price paid therefor by such U.S. Holder. The holding period of each ordinary share owned by a U.S. Holder will commence on the day following the date of the U.S. Holder's purchase of such ordinary share and will include the day on which the ordinary share is sold by such U.S. Holder.

SALE OR EXCHANGE OF ORDINARY SHARES

A U.S. Holder's sale or exchange of ordinary shares will result in the recognition of gain or loss by such U.S. Holder in an amount equal to the difference between the amount realized and the U.S. Holder's basis in the ordinary shares sold. Subject to the following discussion of the consequences of CommTouch being treated as a Passive Foreign Investment Company or a Foreign Investment Company, such gain or loss will be capital gain or loss if such ordinary shares are a capital asset in the hands of the U.S. Holder. Gain or loss realized on the sale of ordinary shares will be long-term capital gain or loss if the ordinary shares sold had been held for more than one year at the time of their sale. Long-term capital gains recognized by certain taxpayers generally are subject to a reduced rate of federal tax (currently a maximum of 20%). If the U.S. Holder's holding period on the date of the sale or exchange was one year or less, such gain or loss will be short-term capital gain or loss. Short-term capital gains generally are subject to tax at the same rates as ordinary income. In general, any capital gain recognized by a U.S. Holder upon the sale or exchange of ordinary shares will be treated as U.S.-source income for U.S. foreign tax credit purposes.

See discussion under "Israeli Taxation and Investment Programs -- Capital Gains and Income Taxes Applicable to Non-Israeli Shareholders" for a discussion of taxation by Israel of capital gains realized on sales of capital assets.

TREATMENT OF DIVIDEND DISTRIBUTIONS

For U.S. federal income tax purposes, gross dividends (including the amount of any Israeli taxes withheld therefrom) paid to a U.S. Holder with respect to his

or her ordinary shares will be included in his or her ordinary income to the extent made out of current or accumulated earnings and profits of CommTouch, as determined based on U.S. tax principles, at the time the dividends are received and will be treated as foreign source dividend income for purposes of the foreign tax credit limitation described below. Such dividends will not be eligible for the dividends received deduction allowed to U.S. corporations under Section 243 of the Code. Dividend distributions in excess of CommTouch's current and accumulated earnings and profits will be treated first as a non-taxable return of the U.S. Holder's tax basis in his or her ordinary shares to the extent thereof and then as a gain from the sale of ordinary shares. Dividends paid in NIS will be includible in income in a U.S. dollar amount based on the exchange rate at the time of their receipt, and any gain or loss resulting from currency fluctuations during the period from the date a dividend is paid to the date such payment is converted into U.S. dollars generally will be treated as ordinary income or loss.

Any Israeli withholding tax imposed on dividends paid to a U.S. Holder will be a foreign income tax eligible for credit against such U.S. Holder's U.S. federal income tax liability subject to certain limitations. Alternatively, a U.S. Holder may claim a deduction for such amount, but only for a year in which a U.S. Holder elects to do so with respect to all foreign income taxes. The overall limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends distributed by CommTouch with respect to ordinary shares will generally constitute "passive income". Foreign income taxes exceeding the credit limitation for the year of payment or accrual may be carried back for two taxable years and forward for five taxable years in order to reduce U.S. federal income taxes, subject to the credit limitation applicable in each of such years. Other restrictions on the foreign tax credit include a general prohibition on the use of the credit to reduce liability for the U.S. individual and corporation alternative minimum taxes by more than 90% and an allowance of foreign tax credits for alternative minimum tax purposes only to the extent of foreign-source alternative minimum taxable income. See "Israeli Taxation and Investment Programs -- Capital Gains and Income Taxes Applicable to Non-Israeli Shareholders."

INFORMATION REPORTING AND BACKUP WITHHOLDING

Any dividends paid on, or proceeds derived from a sale of, the ordinary shares to, or by, U.S. Holders may be subject to U.S. information reporting requirements and the 31% U.S. backup withholding tax unless the holder (i) is a corporation or other exempt recipient or (ii) provides a United States taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with any applicable withholding requirements. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a refund or a credit against the U.S. Holder's U.S. federal income tax, provided the required information is furnished to the U.S. Internal Revenue Service.

TAX STATUS OF COMMTOUCH FOR U.S. FEDERAL INCOME TAX PURPOSES

Passive Foreign Investment Company. If CommTouch were deemed to be a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, any gain recognized by a U.S. Holder upon the sale of ordinary shares (or the receipt of certain distributions) generally would be treated as ordinary income, such income would be allocated over such U.S. Holder's holding period for such ordinary shares and an interest charge would be imposed on the amount of deferred tax on such income which is allocated to prior taxable years. Generally, CommTouch will be treated as a PFIC for any tax year if, in such tax

year or any prior tax year, either (i) 75% or more of its gross income is passive in nature, or (ii) on average, 50% or more of its assets (by value or, if CommTouch elects or if CommTouch is treated as a "controlled foreign corporation" under the Code, by their adjusted basis for computing earnings and profits) produce or are held for the production of passive income. CommTouch does not believe it satisfies either of the tests for PFIC status for any tax year to date and, although CommTouch is acquiring substantial cash in connection with this Offering, it expects that the majority of its assets will continue to generate sufficient levels of income to avoid PFIC treatment for U.S. federal income tax purposes. However, since the determination whether CommTouch is a PFIC will be made annually based on facts and circumstances that, to some extent, may be beyond CommTouch's control, there can be no assurance that

CommTouch will not become a PFIC at some time in the future. If CommTouch were determined to be a PFIC, however, a U.S. Holder could elect to treat his or her ordinary shares as an interest in a qualified electing fund (a "QEF Election"), in which case, the U.S. Holder would be required to include in income currently his or her proportionate share of CommTouch's earnings and profits in years in which CommTouch is a PFIC whether or not distributions of such earnings and profits are actually made to such U.S. Holder, but any gain subsequently recognized upon the sale by such U.S. Holder of his or her ordinary shares generally would be taxed as a capital gain. Alternatively, a U.S. Holder may elect to mark the ordinary shares to market annually, recognizing ordinary income or loss (subject to certain limitations) equal to the difference between the fair market value of its ordinary shares and the adjusted basis of such stock. See "U.S. Consequences Regarding ordinary shares Acquired by U.S. Taxpayers--Sale or Exchange of Ordinary Shares" above. U.S. Holders should consult with their own tax advisers regarding the eligibility, manner and advisability of making a QEF Election if CommTouch is treated as a PFIC.

Controlled Foreign Corporations. Sections 951 through 964 and Section 1248 of the Code relate to controlled foreign corporations ("CFC"). The CFC provisions may impute some portion of such a corporation's undistributed income to certain U.S. shareholders on a current basis and convert into dividend income some portion of gains on dispositions of stock which would otherwise qualify for capital gains treatment. In general, the CFC provisions will apply to CommTouch only if U.S. shareholders, who are U.S. Holders and who own, directly or indirectly, 10% or more of the total combined voting power of all classes of voting stock own in the aggregate (or are deemed to own after application of complex attribution rules) more than 50% (measured by voting power or value) of the outstanding stock of CommTouch. CommTouch does not believe that it will be a CFC after this Offering. It is possible that CommTouch could become a CFC in the future. Even if CommTouch were classified as a CFC in a future year, however, the CFC rules referred to above would apply only with respect to U.S. shareholders, who are U.S. Holders and who own, directly or indirectly, 10% or more of the total combined voting power of all classes of voting stock of CommTouch.

Personal Holding Company/Foreign Personal Holding Company/Foreign Investment Company. A corporation will be classified as a personal holding company, or a PHC, if (i) five or fewer individuals at any time during the last half of a tax year (without regard to their citizenship or residence) directly or indirectly or by attribution own more than 50% in value of the corporation's stock and (ii) at least 60% of its ordinary gross income for the taxable year, as specially adjusted, consists of personal holding company income (defined generally to include dividends, interest, royalties, rents and certain other types of passive income). A PHC is subject to a United States federal income tax of 39.6% on its undistributed personal holding company income (generally limited, in the case of a foreign corporation, to United States source income).

A corporation will be classified as a foreign personal holding company, or an FPHC and not a PHC if at any time during a tax year (i) five or fewer individual United States citizens or residents directly or indirectly or by attribution own more than 50% of the total combined voting power or value of the corporation's stock and (ii) at least 60% of its gross income consists of (50% for years following the first year it becomes a FPHC) FPHC income (defined generally to include dividends, interest, royalties, rents and certain other types of passive income). Each United States shareholder in an FPHC is required to include in gross income, as a dividend, an allocable share of the FPHC's undistributed foreign personal holding company income (generally the taxable income of the FPHC, as specially adjusted).

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A corporation will be classified as a foreign investment company, or an FIC if for any taxable year it (i) is registered under the Investment Company Act of 1940, as amended, as a management company or unit investment trust or is engaged primarily in the business of investing or trading in securities or commodities (or any interest therein) and (ii) 50% or more of the total value or the total combined voting power of all classes of the corporation's stock is owned directly or indirectly (including stock owned through the application of attribution rules) by United States persons. In general, unless an FIC elects to distribute 90% or more of its taxable income (determined under United States tax principles as specially adjusted) to its shareholders, any gain on the sale or exchange of stock in a foreign corporation, which was a FIC at any time during the period during which a taxpayer held such stock, is treated as ordinary income (rather than capital gain) to the extent of such shareholder's ratable

share of the corporation's accumulated earnings and profits.

CommTouch believes that it is not and will not be a PFIC, PHC, FPHC or FIC after this Offering. However, no assurance can be given as to CommTouch's future status.

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ISRAELI TAXATION AND INVESTMENT PROGRAMS

The following discussion summarizes the material Israeli tax consequences relating to CommTouch, its shareholders and ownership and disposition of its ordinary shares. This summary does not discuss all aspects of Israeli tax law that may be relevant to a particular investor in light of his personal investment circumstances or to certain types of investors subject to special treatment under Israeli law (for example, traders in securities or persons that own, directly or indirectly, 10% or more of CommTouch's outstanding voting shares). The following also includes a discussion of certain Israeli government programs benefiting various Israeli businesses such as CommTouch. To the extent that the discussion is based on new legislation yet to be subject to judicial or administrative interpretation, there can be no assurance that the views expressed herein will accord with any such interpretation in the future. This discussion does not cover all possible tax consequences or situations, and investors should consult their tax advisors regarding the tax consequences unique to their situation.

GENERAL CORPORATE TAX STRUCTURE

CommTouch is subject to corporate tax in Israel. Commencing in the tax year 1993 through and including 1996, the regular rate of corporate tax to which Israeli companies are subject decreased each year, i.e. from 39% in 1993 down to 36% in 1996 and thereafter. However, the effective rate payable by a company which derives income from an Approved Enterprise (as further discussed below) may be considerably less. See "Law for the Encouragement of Capital Investments, 1959."

Our tax loss carryforwards were approximately \$10.4 million as of December 31, 1998. The amount of our tax loss carryforwards will be reduced by any future income of CommTouch that would be fully tax exempt.

TAXATION UNDER INFLATIONARY CONDITIONS

The Income Tax Law (Adjustment for Inflation), 1985 (the "Adjustment for Inflation Law") attempts to overcome some of the problems experienced in a traditional tax system by an economy experiencing rapid inflation, which was the case in Israel at the time the Adjustment for Inflation Law was enacted. Generally, the Adjustment for Inflation Law was designed to neutralize for Israeli tax purposes the erosion of capital investments in businesses and to prevent unintended tax benefits resulting from the deduction of inflationary financing expenses. The Adjustment for Inflation Law applies a supplementary set of inflationary adjustments to a normal taxable profit computed according to regular historical cost principles.

The Adjustment for Inflation Law introduced a special adjustment for the preservation of equity for the tax purpose based on changes in the Israeli CPI, whereby corporate assets are classified broadly into fixed (inflation resistant) assets and non-fixed assets. Where shareholders' equity, as defined in the Adjustment for Inflation Law, exceeds the depreciated cost of fixed assets, a corporate tax deduction which takes into account the effect of inflationary change on such excess is allowed (up to a ceiling of 70% of taxable income in any single tax year, with the unused portion permitted to be carried forward on an inflation-linked basis with no ceiling). If the depreciated cost of fixed assets exceeds shareholders' equity, then such excess multiplied by the annual rate of inflation is added to taxable income.

In addition, subject to certain limitations, depreciation on fixed assets and loss carried forwards are adjusted for inflation based on changes in the Israeli CPI. The net effect of the Adjustment for Inflation Law on CommTouch might be that CommTouch's taxable income, as determined for Israeli corporate tax purposes, will be different from CommTouch's U.S. dollar income, as reflected in its financial statements, due to the difference between the annual changes in the CPI and in the NIS exchange rate with respect to the U.S. Dollar, causing changes in the actual tax rate.

LAW FOR THE ENCOURAGEMENT OF INDUSTRY (TAXES), 1969

CommTouch currently qualifies as an "Industrial Company" within the meaning of the Law for the Encouragement of Industry (Taxes), 1969 (the "Industry Encouragement Law"). According to the Industry Encouragement Law, an "Industrial Company" is a company resident in Israel, at least 90% of the income of which in any tax year, determined in Israeli currency (exclusive of income from defense loans, capital gains, interest and dividends) is derived from an "Industrial Enterprise" that it owns. An "Industrial Enterprise" is defined by that law as an enterprise whose major activity in a given tax year is industrial production activity.

Included among the tax benefits for an Industrial Company are deductions of 12.5% per annum of the purchase price of a patent or of know-how, an election under certain conditions to file a consolidated return and accelerated depreciation rates on equipment and buildings.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. No assurance can be given that CommTouch will continue to qualify as an "Industrial Company" or that the benefits described above will be available in the future.

LAW FOR THE ENCOURAGEMENT OF CAPITAL INVESTMENTS, 1959

The Law for the Encouragement of Capital Investments, 1959, as amended (the "Investment Law"), provides that a capital investment in production facilities (or other eligible facilities) may, upon application to the Israel Investment Center, be designated as an Approved Enterprise. Each certificate of approval for an Approved Enterprise relates to a specific capital investment program delineated both by its financial scope, including its capital sources, and its physical characteristics, i.e. the equipment to be purchased and utilized pursuant to the program. The tax benefits derived from any such certificate of approval relate only to taxable profits attributable to the specific Approved Enterprise.

CommTouch's investment plans have been granted the status of an Approved Enterprise under the Investment Law, in two separate investment programs. These programs provide CommTouch with certain tax benefits as described below; with regard to the first program, CommTouch also received long-term loans guaranteed by the State of Israel. Under the terms of CommTouch's Approved Enterprise programs, income earned by CommTouch from its Approved Enterprises will be tax exempt for a period of two years, commencing with the year in which it first earns taxable income, and subject to a reduced corporate tax rate of 10% to 25% for an additional period of five to eight years (provided that the total period of tax benefits will not extend past (i) 12 years from the year of commencement of production or (ii) 14 years from the year of approval of approved enterprise status). The reduced corporate tax rate, to which CommTouch's Approved Enterprise program will be subject is dependent on the level of foreign investment in CommTouch. In the event a company operates under more than one approval or only part of its capital investments are approved (a "Mixed Enterprise"), its effective corporate tax rate is the result of a weighted combination of the various applicable rates. Notwithstanding these tax benefits, to the extent CommTouch receives income from countries other than Israel, such income may be subject to withholding tax.

The implementation of the investments under the first plan was finalized by CommTouch in 1995. The implementation of the second plan is expected to be finalized in 1999.

If dividends are distributed out of tax-exempt profit from CommTouch's Approved Enterprises, CommTouch will be liable for corporate tax at the rate which would have been applied if it had not chosen the alternative tax benefits (currently 25% for an Approved Enterprise). Therefore, income derived from CommTouch's Approved Enterprises would be subject to tax if distributed to shareholders as a dividend. See Note 8 to the Consolidated Financial Statements.

The dividend recipient will be taxed at the reduced rate applicable to dividends from Approved Enterprises (currently 15%), if the dividend is distributed during the tax exemption period or within a specified period

thereafter, or for an unlimited period in the case of a "Foreign Investors' Company" -- a company more than 25% foreign owned with an Approved Enterprise. This tax must be withheld by the company at source regardless of whether the dividend is converted into foreign currency. See "-- Capital Gains and Income Taxes Applicable to Non-Israeli Shareholders." Subject to certain provisions concerning income eligible for exemption if retained, all dividends are considered to be attributable to the entire enterprise, and the effective tax rate is the result of a weighted combination of the various applicable tax rates.

The Investment Law also provides that a company with an Approved Enterprise is entitled to accelerated depreciation on its property and equipment included in an approved investment program.

Future applications to the Investment Center will be reviewed separately, and decisions as to whether or not to approve such applications will be based, among other things, on the then prevailing criteria set forth in the Investment Law, on the specific objectives of the applicant company set forth in such applications and on certain financial criteria of the applicant company. Accordingly, there can be no assurance that any such applications will be approved. In addition, the benefits available to an Approved Enterprise are conditional upon the fulfillment of certain conditions stipulated in the Investment Law and its regulations and the criteria set forth in the specific certificate of approval, as described above. In the event that these conditions are violated, in whole or in part, the Company would be required to refund the amount of tax benefits, with the addition of the CPI linkage adjustment and interest.

CAPITAL GAINS AND INCOME TAXES APPLICABLE TO NON-ISRAELI RESIDENT SHAREHOLDERS

Under existing regulations any capital gain realized by an individual shareholder with respect to the Ordinary Shares acquired on or after the listing of such shares for trading will be exempt from Israeli capital gains tax if the Ordinary Shares are listed on an approved foreign securities market (which includes Nasdaq in the United States), provided that the company continues to qualify as an Industrial Company under Israeli law and provide the individual does not hold such shares for business purposes.

If we do not maintain our status as an Industrial Company, then subject to any applicable tax treaty the Israeli capital gains tax rates would be up to 50% for non-Israeli resident individuals and 36% for companies.

Upon a distribution of dividends other than bonus shares (stock dividends), income tax is generally withheld at source at the rate of 25% (or the lower rate payable with respect to Approved Enterprises), unless a double taxation treaty is in effect between Israel and the shareholder's country of residence that provides for a lower tax rate in Israel on dividends.

A tax treaty between the United States and Israel (the "Treaty"), provides for a maximum tax of 25% on dividends paid to a resident of the United States (as defined in the Treaty). Dividends distributed by an Israeli company and derived from the income of an approved enterprise are subject to a 15% dividend withholding tax. The Treaty further provides that a 12.5% Israeli dividend withholding tax applies to dividends paid to a United States corporation owning 10% or more of an Israeli company's voting shares throughout the current year to the date the dividend is paid and the preceding taxable year (as applicable). The 12.5% rate applies only on dividends from a company that does not have an Approved Enterprise in the applicable period.

If for any reason shareholders do not receive the above exemption for a sale of shares in an Industrial Company, the Treaty provides U.S. resident investors with an exemption from Israeli capital gains tax in certain circumstances (there may still be U.S. taxes) upon a disposition of shares in CommTouch if they held under 10% of the Company's voting stock throughout the 12 months before the share disposition. If Israeli capital gains tax is payable, it can be credited against U.S. federal tax under the circumstances specified in the Treaty.

A non-resident of Israel who has had dividend income derived or accrued in Israel from which the applicable tax was withheld at source is currently exempt from the duty to file an annual Israeli tax return

with respect to such income, provided such income was not derived from a business carried on in Israel by such non-resident and that such non-resident does not derive other non-passive income from sources in Israel.

TAX BENEFITS FOR RESEARCH AND DEVELOPMENT

Israeli tax law allows under certain conditions a tax deduction in the year incurred for expenditures (including depreciation on capital expenditures but excluding depreciable capital expenditures) in scientific research and development projects, if the expenditures are approved by the relevant Israeli Government Ministry (determined by the field of research) and the research and development is for the promotion of the enterprise. Expenditures not so approved are deductible over a three-year period. However, expenditures made out of the proceeds of government grants are not deductible, i.e. CommTouch will be able to deduct the unfunded portion of the research and development expenditures and not the gross amount.

LAW FOR THE ENCOURAGEMENT OF INDUSTRIAL RESEARCH AND DEVELOPMENT, 1984

Under the Law for the Encouragement of Industrial Research and Development, 1984 (the "Research Law") and the Instructions of the Director General of the Ministry of Industry and Trade, research and development programs and the plans for the intermediate stage between research and development, and manufacturing and sales approved by a governmental committee of the Office of Chief Scientist (OCS) (the "Research Committee") are eligible for grants of up to 50% of the project's expenditure if they meet certain criteria. These grants are issued in return for the payment of royalties from the sale of the product developed in accordance with the program as follows: 3% of revenues during the first three years, 4% of revenues during the following three years, and 5% of revenues in the seventh year and thereafter, with the total royalties not to exceed 100% of the dollar value of the OCS grant (or in some cases up to 300%). Following the full payment of such royalties, there is no further liability for payment.

The Israeli government further requires that products developed with government grants be manufactured in Israel. However, in the event that any portion of the manufacturing is not conducted in Israel, if approval is received from the OCS, the Company would be required to pay royalties that are adjusted in proportion to manufacturing outside of Israel as follows: when the manufacturing is performed outside of Israel by the Company or an affiliate company, the royalties are to be paid as described above with the addition of 1%, and when the manufacturing outside of Israel is not performed by the Company or an affiliate the royalties paid shall be equal to the ratio of the amount of grant received from the OCS divided by the amount of grant received from the OCS and the investment(s) made by the Company in the project. The payback will also be adjusted to 120%, 150% or 300% of the grant if the portion of manufacturing that is performed outside of Israel is up to 50%, between 50% and 90%, or more than 90%, respectively. The technology developed pursuant to the terms of these grants may not be transferred to third parties without the prior approval of the Research Committee. Such approval is not required for the export of any products resulting from such research or development. Approval of the transfer of technology may be granted only if the recipient abides by all the provisions of the Research Law and regulations promulgated thereunder, including the restrictions on the transfer of know-how and the obligation to pay royalties in an amount that may be increased.

In order to meet certain conditions in connection with the grants and programs of the OCS, the Company has made certain representations to the Israel government about the Company's future plans for its Israeli operations. From time to time the extent of the Company's Israeli operations has differed and may in the future differ, from the Company's representations. If, after receiving grants under certain of such programs, the Company fails to meet certain conditions to those benefits, including, with respect to grants received from the OCS, the maintenance of a material preserve in Israel, or if there is any material deviation from the representations made by the Company to the Israeli government, the Company could be required to refund to the State of Israel tax or other benefits previously received (including interest and CPI linkage

difference) and would likely be denied receipt of such grants or benefits, and participation of such programs, thereafter.

The Company participates in programs sponsored by the OCS for the support of research and development activities. Through December 31, 1998, the Company had recorded grants from OCS aggregating \$653,000 for certain of the Company's research and development projects. The Company is obligated to pay royalties to the OCS of 3% to 5% of the sales of the products and other related revenues developed from such projects, up to an amount equal to 100% to 150% of the grants received. Through March 31, 1999, the Company has accrued and paid royalties to the OCS in the aggregate amount of \$253,000. At March 31, 1999, the aggregate OCS contingent liability was \$400,000.

Each application to the OCS is reviewed separately, and grants are based on the program approved by the Research Committee. Expenditures supported under other incentive programs of the State of Israel are not eligible for OCS grants. As a result, there can be no assurance that applications to the OCS will be approved or, if approved, what the amounts of the grants will be.

FUND FOR THE ENCOURAGEMENT OF MARKETING ACTIVITIES

The Company has received grants relating to its overseas marketing expenses from the Marketing Fund. These grants are awarded for specific expenses incurred by the Company for overseas marketing and are based upon the expenses reported by the Company to the Marketing Fund. All marketing grants recorded from the Marketing Fund until 1997 are linked to the dollar and are repayable as royalties at the rate of 3% of the amount of increases in export sales realized by the Company from the Marketing Fund. Grants recorded beginning January 1, 1998 bear royalties of 4% plus interest at LIBOR rates. The Company will face royalty obligations on grants from the Marketing Fund only to the extent it actually achieves increases in export sales. The proceeds of these grants are presented in the Company's consolidated Financial Statements as offsets to marketing expenses. Through December 31, 1998, the Company had received grants from the Marketing Fund in the amount of approximately \$279,000. At March 31, 1999 the aggregate contingent liability was approximately \$121,000.

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CONDITIONS IN ISRAEL

CommTouch is incorporated under the laws of the State of Israel, and substantially all of our research and development and significant executive facilities are located in Israel. Accordingly, CommTouch is directly affected by political, economic and military conditions in Israel. Our operations would be materially adversely affected if major hostilities involving Israel should occur or if trade between Israel and its present trading partners should be curtailed.

POLITICAL CONDITIONS

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. However, a peace agreement between Israel and Egypt was signed in 1979, a peace agreement between Israel and Jordan was signed in 1994 and, since 1993, several agreements between Israel and Palestinian representatives have been signed. In addition, Israel and several Arab States have announced their intention to establish trade and other relations and are discussing certain projects. Israel has not entered into any peace agreement with Syria or Lebanon, and there have been difficulties in the negotiations with the Palestinians. We cannot be certain as to how the peace process will develop or what effect it may have upon CommTouch.

Despite the progress towards peace between Israel and its Arab neighbors and the Palestinians, certain countries, companies and organizations continue to participate in a boycott of Israeli firms. CommTouch does not believe that the boycott has had a material adverse effect on CommTouch, but restrictive laws, policies or practices directed towards Israel or Israeli businesses may have an adverse impact on the expansion of CommTouch's business.

Generally, all male adult citizens and permanent residents of Israel under the age of 51 are obligated to perform up to 39 days, or longer under certain circumstances, of military reserve duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Currently, a majority of our officers and employees are obligated to perform annual reserve duty. While we have operated effectively under these

requirements since we began operations, no assessment can be made as to the full impact of such requirements on our workforce or business if conditions should change, and no prediction can be made as to the effect on us of any expansion or reduction of such obligations.

ECONOMIC CONDITIONS

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. The Israeli government has, for these and other reasons, intervened in various sectors of the economy, employing, among other means, fiscal and monetary policies, import duties, foreign currency restrictions and controls of wages, prices and foreign currency exchange rates. The current Israeli government elected in 1996 has expressed its intention to reduce government involvement in the economy by various means, including relaxation of foreign currency controls and certain budgetary restraints, and privatization of certain government-owned companies. The Israeli government has periodically changed its policies in all these areas.

Until May 1998, Israel imposed restrictions on transactions in foreign currency. These restrictions affected our operations in various ways, and also affected the right of non-residents of Israel to convert into foreign currency amounts they received in Israeli currency, such as the proceeds of a judgment enforced in Israel. Despite these restrictions, foreign investors who purchased shares with foreign currency were able to repatriate in foreign currency both dividends (after deduction of withholding tax) and the proceeds from the sale of the shares. There are currently no Israeli currency control restrictions on remittances of

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dividends on the ordinary shares or the proceeds from the sale of the shares; however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

TRADE AGREEMENTS

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is also a signatory to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its members. In addition, Israel has been granted preferences under the Generalized System of Preferences from Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

Israel has entered into preferential trade agreements with the European Union, the United States and the European Free Trade Association. In recent years, Israel has established commercial and trade relations with a number of the other nations, including Russia, China and India, with which Israel had not previously had such relations.

ASSISTANCE FROM THE UNITED STATES

Israel receives significant amounts of economic and military assistance from the United States, averaging approximately \$3 billion annually over the last several years. In addition, in 1992, the United States approved the issuance of up to \$10 billion of loan guarantees during U.S. fiscal years 1993 to 1998 to help Israel absorb a large influx of new immigrants, primarily from the republics of the former Soviet Union. Under the loan guarantee program, Israel may issue up to \$2 billion in principal amount of guaranteed loans each year, subject to reduction in certain circumstances. There is no assurance that foreign aid from the United States will continue at or near amounts received in the past. If the grants for economic and military assistance or the United States loan guarantees are eliminated or reduced significantly, the Israeli economy could suffer material adverse consequences.

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UNDERWRITING

The underwriters named below, for whom U.S. Bancorp Piper Jaffray, Prudential Securities Incorporated and Warburg Dillon Read LLC, a subsidiary of UBS AG, are acting as representatives, have agreed to buy, subject to the terms of the underwriting agreement, the number of shares listed opposite their names below. The underwriters are committed to purchase and pay for all of the shares if any are purchased, other than those shares covered by the over-allotment option described below.

UNDERWRITER -----	NUMBER OF SHARES -----
U.S. Bancorp Piper Jaffray Inc.	
Prudential Securities Incorporated.....	
Warburg Dillon Read LLC, a subsidiary of UBS AG.....	-----
 Total.....	 3,000,000

The underwriters have advised us that they propose to offer the shares to the public at \$ per share. The underwriters propose to offer the shares to certain dealers at the same price less a concession of not more than \$ per share. The underwriters may allow and the dealers may reallocate a concession of not more than \$ per share on sales to certain other brokers and dealers. After the offering, these figures may be changed by the representatives.

Of the 3,000,000 ordinary shares offered by us, up to 150,000 shares will be reserved for sale to persons designated by us. Shares not sold to these persons will be reoffered immediately by the underwriters to the public at the initial public offering price. The underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

We have granted to the underwriters an option to purchase up to an additional 450,000 ordinary shares from us at the same price to the public, and with the same underwriting discount, as set forth above. The underwriters may exercise this option any time during the 30-day period after the date of this prospectus, but only to cover over-allotments, if any. To the extent the underwriters exercise the option, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of the additional shares as it was obligated to purchase under the underwriting agreement.

The following table shows the underwriting fees to be paid by us to the underwriters and the expenses to be paid by us in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the over-allotment option.

	PER SHARE -----	TOTAL -----	
		NO EXERCISE -----	FULL EXERCISE -----
Underwriting discounts and commissions.....	\$	\$	\$
Expenses.....	\$ --	\$	\$

We have agreed to indemnify the underwriters against certain liabilities, including civil liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

We and each of our directors, executive officers, principal shareholders and optionholders have agreed to certain restrictions on our ability to sell additional ordinary shares for a period of 180 days after the date of this prospectus. We have agreed not to directly or indirectly offer, pledge, sell, offer to sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, or otherwise transfer or dispose of, directly or indirectly, any ordinary shares, or any securities convertible into, or exercisable or exchangeable

for, ordinary shares, without the prior written consent of U.S. Bancorp Piper Jaffray. The agreements provide exceptions for our sales in connection with the exercise of options granted and the granting of options to purchase shares under our existing stock option plans and certain other exceptions. However, U.S. Bancorp Piper Jaffray may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to the lock-up agreements. As of the date of this prospectus, there are no agreements between the representatives and any of our shareholders providing consent by the representatives to the sales of ordinary shares prior to the expiration of the lock-up period.

Prior to the offering, there has been no established trading market for the ordinary shares. The initial public offering price for the ordinary shares offered by this prospectus was negotiated by us and the underwriters. The factors considered in determining the initial public offering price include the history of and the prospects for the industry in which we compete, our past and present operations, our historical results of operations, our prospects for future earnings, the recent market prices of securities of generally comparable companies and the general condition of the securities markets at the time of the offering and other relevant factors. There can be no assurance that the initial public offering price of the ordinary shares will correspond to the price at which the ordinary shares will trade in the public market subsequent to this offering or that an active public market for the ordinary shares will develop and continue after this offering.

To facilitate the offering, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the ordinary shares during and after the offering. Specifically, the underwriters may over-allot or otherwise create a short position in the ordinary shares for their own account by selling more ordinary shares than have been sold to them by us. The underwriters may elect to cover any such short position by purchasing ordinary shares in the open market or by exercising the over-allotment option granted to the underwriters. In addition, the underwriters may stabilize or maintain the price of the ordinary shares by bidding for or purchasing ordinary shares in the open market and may impose penalty bids. If penalty bids are imposed, selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if ordinary shares previously distributed in the offering are repurchased, whether in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the ordinary shares at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also effect the price of the ordinary shares to the extent that it discourages resales of the ordinary shares. The magnitude or effect of any stabilization or other transactions is uncertain. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

The underwriters will receive no underwriting discounts or commissions for the sale to Go2Net of approximately 896,057 unregistered shares and the sale to Vulcan Ventures of approximately 448,029 unregistered shares in the private placement taking place concurrently with this offering. Go2Net and CommTouch are also entering into a private label email service agreement. In connection with that agreement, Go2Net will receive warrants to purchase 1,136,000 ordinary shares at \$12.80 per share, unless that price is otherwise adjusted as provided in the warrant agreement between Go2Net and CommTouch. U.S. Bancorp Piper Jaffray will receive an advisory fee of \$550,000 from CommTouch for investment banking advisory services in relation to the transactions with Go2Net and Vulcan Ventures.

LEGAL MATTERS

Certain legal matters with respect to United States law are being passed upon for CommTouch by McCutchen, Doyle, Brown & Enersen, LLP, Palo Alto, California. The validity of the ordinary shares offered hereby is being passed upon for CommTouch by Naschitz, Brandes & Co., Tel-Aviv, Israel. Certain legal matters in connection with this offering will be passed upon for the underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California, with respect to United States law, and by Yigal Arnon & Co., Tel-Aviv, Israel, with respect to Israeli law. The partners of McCutchen, Doyle, Brown & Enersen, LLP, beneficially own an aggregate of 13,840 ordinary shares.

EXPERTS

The consolidated financial statements of CommTouch Software Ltd. as of December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998 appearing in this prospectus and Registration Statement have been audited by Kost, Forer & Gabbay, a member of Ernst & Young International, independent auditors, as set forth in their report thereon appearing elsewhere herein and are included in reliance upon such report given on the authority of such firm as experts in auditing and accounting.

ISA EXEMPTION

The Israel Securities Authority has granted CommTouch an exemption from the obligation to publish this prospectus in the manner required pursuant to the prevailing laws of the State of Israel, and from the obligation to file periodic reports with the Israel Securities Authority. CommTouch will make a copy of each report filed in accordance with United States law available for public review at its principal office in Israel.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form F-1 with the SEC for the shares we are offering by this prospectus. This prospectus does not include all of the information contained in the registration statement. You should refer to the registration statement and its exhibits for additional information. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document. When we complete this offering, we will also be required to file annual, quarterly 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, 7 World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. 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, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Our SEC filings are also available at the office of the Nasdaq National Market. For further information on obtaining copies of our public filings at the Nasdaq National Market, you should call (212) 656-5060. Information contained on the CommTouch websites does not constitute part of this prospectus.

After the offering, we will become subject to certain of the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). We, as a "foreign private issuer," 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 annual, quarterly and current reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to file with the Securities and Exchange Commission, within 180 days after the end of each fiscal year, an annual report on Form 20-F containing financial statements that will be examined and reported on, with an opinion expressed by an independent accounting firm, as well as quarterly reports on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year, within 60 days after the end of each such quarter.

ENFORCEABILITY OF CIVIL LIABILITIES

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

COMMTouch SOFTWARE LTD.

CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 1999
IN U.S. DOLLARS

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To the Shareholders of
 COMMTOUCH SOFTWARE LTD.

We have audited the accompanying consolidated balance sheets of CommTouch Software Ltd. and its subsidiary as of December 31, 1997 and 1998, and the related consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the consolidated financial position of CommTouch Software Ltd. and its subsidiary as of December 31, 1997 and 1998, and the consolidated results of their operations, and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in the United States.

Tel-Aviv, Israel
 March 15, 1999

(Except for Note 11, as to which the date is July 12, 1999)

Tel-Aviv, Israel

/s/ Kost, Forer & Gabbay
 KOST, FORER & GABBAY
 A member of Ernst & Young International

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COMMTOUCH SOFTWARE LTD.
 CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	DECEMBER 31,		MARCH 31,	PRO FORMA SHAREHOLDERS' EQUITY AS OF MARCH 31,
	1997	1998	1999	1999
	-----	-----	-----	-----
	(UNAUDITED)			
ASSETS				
Current Assets:				
Cash and cash equivalents.....	\$ 324	\$ 834	\$ 3,226	
Trade receivables.....	49	133	321	
Prepaid expenses.....	13	96	375	
Government authorities.....	38	45	61	
Other accounts receivable.....	29	103	93	
	-----	-----	-----	
Total current assets.....	453	1,211	4,076	
Severance Pay Fund.....	214	223	240	
Property and Equipment, net.....	398	932	1,709	
	-----	-----	-----	
	\$1,065	\$ 2,366	\$ 6,025	
	=====	=====	=====	

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current Liabilities:

Short-term bank line of credit.....	\$ 733	\$ 1,328	\$ 1,086	
Current portion of bank loans and capital leases...	66	112	118	
Trade payables.....	355	446	464	
Employees and payroll accruals.....	252	313	303	
Government authorities.....	232	246	274	
Deferred revenue.....	--	74	132	
Other liabilities.....	79	132	281	
	-----	-----	-----	
Total current liabilities.....	1,717	2,651	2,658	
	-----	-----	-----	
Long-term Portion of Bank Loans and Capital Leases...	28	164	133	
Accrued Severance Pay.....	338	366	427	
	-----	-----	-----	
	366	530	560	
	-----	-----	-----	

Commitments and Contingent Liabilities.....

Shareholders' Equity (Deficit)

Convertible Preferred shares --				
Series A, B and C Convertible Preferred				
Shares -- Authorized: 565,820 shares of NIS 1 par value; Issued and outstanding: 183,637, 221,265 and 313,409 shares as of December 31, 1997, 1998 and March 31, 1999, respectively; Aggregate liquidation preference of approximately \$13,200 and \$23,200 as of December 31, 1998 and March 31, 1999 (unaudited), respectively; Issued and outstanding pro forma: no shares as of March 31, 1999.....	63	74	96	--
Ordinary Shares --				
Authorized: 12,000,000, 11,515,000 and 10,683,600 shares of NIS 0.05 par value as of December 31, 1997 and 1998 and March 31, 1999, respectively; Issued and outstanding: 1,450,040 shares as of December 31, 1997, 1998 and 2,148,320 shares as of March 31, 1999, respectively; Issued and outstanding pro forma: 8,416,500 shares as of March 31, 1999.....	27	27	35	131
Additional Paid-in Capital.....	6,295	11,256	24,910	24,910
Stock-Based Employee Deferred Compensation.....	--	(418)	(7,282)	(7,282)
Notes Receivable from Shareholders.....	(77)	(77)	(964)	(964)
	-----	-----	-----	-----
Accumulated Deficit.....	(7,326)	(11,677)	(13,988)	(13,988)
	-----	-----	-----	-----
Total Shareholders' Equity (Deficit).....	(1,018)	(815)	2,807	\$ 2,807
	-----	-----	-----	-----
	\$1,065	\$ 2,366	\$ 6,025	
	=====	=====	=====	

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

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COMMTOUCH SOFTWARE LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1996	1997	1998	1998	1999
	-----	-----	-----	-----	-----
Revenues:					
Email Services.....	\$ --	\$ --	\$ 389	\$ 32	\$ 346
Software licenses.....	2,641	711	--	--	--
Software maintenance and services.....	493	188	--	--	--

(UNAUDITED)

Total revenue.....	3,134	899	389	32	346
Cost of revenues:					
Email Services.....	--	--	569	59	405
Software licenses.....	79	21	--	--	--
Software maintenance and services.....	384	144	--	--	--
Total cost of revenues.....	463	165	569	59	405
Gross profit (loss).....	2,671	734	(180)	(27)	(59)
Operating expenses:					
Research and development, net.....	1,479	1,108	1,149	266	307
Sales and marketing.....	1,965	2,202	2,001	459	481
General and administrative.....	465	829	604	138	807
Amortization of stock-based employee deferred compensation.....	--	--	91	2	386
Total operating expenses.....	3,908	4,139	3,845	865	1,981
Operating loss.....	(1,237)	(3,405)	(4,025)	(892)	(2,040)
Interest expense and other, net.....	(45)	(68)	(326)	(27)	(271)
Net loss.....	\$ (1,282)	\$ (3,473)	\$ (4,351)	\$ (919)	\$ (2,311)
Basic and diluted net loss per share.....	\$ (0.66)	\$ (2.40)	\$ (3.00)	\$ (0.63)	\$ (1.50)
Weighted average number of shares used in computing basic and diluted net loss per share.....	1,934	1,450	1,450	1,450	1,546
Pro forma basic and diluted net loss per share (unaudited).....			\$ (0.78)		\$ (0.32)
Weighted average number of shares used in computing pro forma basic and diluted net loss per share (unaudited).....			5,594		7,313

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

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COMMTouch SOFTWARE LTD.

CONSOLIDATED STATEMENT OF
CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(IN THOUSANDS, EXCEPT SHARE DATA)

	CONVERTIBLE PREFERRED SHARES		ORDINARY SHARES		ADDITIONAL PAID-IN CAPITAL	STOCK-BASED EMPLOYEE DEFERRED COMPENSATION	NOTES RECEIVABLE
	SHARES	AMOUNT	SHARES	AMOUNT			
Balance as of January 1, 1996.....	--	\$--	3,372,760	\$ 63	\$ 1,935	\$ --	\$ (77)
Conversion of Ordinary shares into Convertible Preferred shares.....	97,878	36	(1,922,720)	(36)	--	--	--
Issuance of shares.....	62,438	20	--	--	2,689	--	--
Net loss.....	--	--	--	--	--	--	--
Balance as of December 31, 1996.....	160,316	56	1,450,040	27	4,624	--	(77)
Issuance of shares.....	23,321	7	--	--	1,625	--	--
Warrants issued for services received and bank line of credit.....	--	--	--	--	46	--	--
Net loss.....	--	--	--	--	--	--	--
Balance as of December 31, 1997.....	183,637	63	1,450,040	27	6,295	--	(77)
Issuance of shares.....	37,628	11	--	--	4,061	--	--
Warrants issued for services received and bank line of credit.....	--	--	--	--	391	--	--
Deferred compensation related to options issued to employees.....	--	--	--	--	509	(509)	--
Amortization of deferred compensation.....	--	--	--	--	--	91	--
Net loss.....	--	--	--	--	--	--	--
Balance as of December 31, 1998.....	221,265	74	1,450,040	27	11,256	(418)	(77)
Issuance of shares (unaudited).....	92,144	22	--	--	5,270	--	--

Issuance of shares upon exercise of warrants (unaudited).....	--	--	35,600	*	--	--	--
Ordinary shares issued for notes receivable (unaudited).....	--	--	662,680	8	879	--	(887)
Warrants issued for services and bank line of credit (unaudited).....	--	--	--	--	255	--	--
Deferred compensation related to options issued to employees (unaudited).....	--	--	--	--	7,250	(7,250)	--
Amortization of deferred compensation.....	--	--	--	--	--	386	--
Net loss (unaudited).....	--	--	--	--	--	--	--
Balance as of March 31, 1999 (unaudited).....	313,409	\$96	2,148,320	\$ 35	\$24,910	\$(7,282)	\$(964)

	ACCUMULATED DEFICIT	TOTAL
Balance as of January 1, 1996.....	\$ (2,571)	\$ (650)
Conversion of Ordinary shares into Convertible Preferred shares.....	--	--
Issuance of shares.....	--	2,709
Net loss.....	(1,282)	(1,282)
Balance as of December 31, 1996.....	(3,853)	777
Issuance of shares.....	--	1,632
Warrants issued for services received and bank line of credit.....	--	46
Net loss.....	(3,473)	(3,473)
Balance as of December 31, 1997.....	(7,326)	(1,018)
Issuance of shares.....	--	4,072
Warrants issued for services received and bank line of credit.....	--	391
Deferred compensation related to options issued to employees.....	--	--
Amortization of deferred compensation.....	--	91
Net loss.....	(4,351)	(4,351)
Balance as of December 31, 1998.....	(11,677)	(815)
Issuance of shares (unaudited).....	--	5,292
Issuance of shares upon exercise of warrants (unaudited).....	*	--
Ordinary shares issued for notes receivable (unaudited).....	--	--
Warrants issued for services and bank line of credit (unaudited).....	--	255
Deferred compensation related to options issued to employees (unaudited).....	--	--
Amortization of deferred compensation.....	--	386
Net loss (unaudited).....	\$(2,311)	\$(2,311)
Balance as of March 31, 1999 (unaudited).....	\$(13,988)	\$ 2,807

* Represents amount less than one thousand dollars

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

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COMMTouch SOFTWARE LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	THREE MONTHS ENDED				
	YEAR ENDED DECEMBER 31,			MARCH 31,	
	1996	1997	1998	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net loss.....	\$(1,282)	\$(3,473)	\$(4,351)	\$(918)	\$(2,311)

(UNAUDITED)

Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization.....	303	206	236	44	173
Amortization of stock-based employee deferred compensation and warrants issued for service received and bank line of credit.....	--	46	482	34	641
Decrease (increase) in trade receivables.....	(509)	738	(84)	(16)	(188)
Decrease (increase) in other accounts receivable and prepaid expenses.....	(61)	14	(164)	(27)	(285)
Increase (decrease) in trade payables.....	181	99	91	(176)	18
Increase (decrease) in other liabilities.....	27	(147)	128	42	167
Increase in deferred revenue.....	--	--	74	25	58
Increase (decrease) in accrued severance pay, net.....	28	(54)	19	(3)	44
Other.....	8	--	--	--	--
	-----	-----	-----	-----	-----
Net cash used in operating activities.....	(1,305)	(2,571)	(3,569)	(995)	(1,683)
	-----	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment.....	(427)	(93)	(442)	(57)	(950)
	-----	-----	-----	-----	-----
Net cash used in investing activities.....	(427)	(93)	(442)	(57)	(950)
	-----	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:					
Short-term bank line of credit, net.....	(157)	733	595	78	(242)
Short-term shareholders' loans.....	(121)	--	--	--	--
Principal payment of bank loans.....	(63)	(67)	(94)	(12)	--
Payment of capital lease.....	--	--	(52)	--	(25)
Proceeds from issuance of shares.....	2,709	1,632	4,072	760	5,292
	-----	-----	-----	-----	-----
Net cash provided by financing activities...	2,368	2,298	4,521	826	5,025
	-----	-----	-----	-----	-----
Increase (decrease) in cash and cash equivalents...	636	(366)	510	(226)	2,392
Cash and cash equivalents at the beginning of the period.....	54	690	324	324	834
	-----	-----	-----	-----	-----
Cash and cash equivalents at the end of the period.....	\$ 690	\$ 324	\$ 834	\$ 98	\$ 3,226
	=====	=====	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS ACTIVITY:					
Cash paid during the year:					
Interest.....	\$ 10	\$ 48	\$ 97	\$ 5	\$ 33
	=====	=====	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:					
Capital lease obligations.....	\$ --	\$ --	\$ 328	\$ --	\$ --
	=====	=====	=====	=====	=====
Ordinary shares issued for notes receivable from shareholders.....	\$ --	\$ --	\$ --	\$ --	\$ 887
	=====	=====	=====	=====	=====

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

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COMMTouch SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CommTouch Software Ltd. (the "Company" or "CommTouch") was incorporated under the laws of Israel in 1991. The Company, together with its United States subsidiary, CommTouch Software Inc., ("CSI") a California corporation, is a provider of Web-based email and communications solutions to business partners (customers) who in turn offer those solutions to their end-users. From inception through 1997, the Company generated revenues primarily from sale maintenance and service of stand-alone email client software products for both mainframe and personal computers. From 1998, the Company began to generate revenues by providing email services to its business partners. Email service revenues are derived from contracts that provide for a minimum service commitment fee, revenue sharing from advertising, direct marketing and communications services, and a per mailbox fee.

Revenues derived from the Company's largest business partner represent 54% of the Company's revenues in 1998.

In 1998, a majority of the Company's sales were made in Europe, the Far East and North America.

The consolidated financial statements have been prepared in accordance with generally accepted accounting policies in the United States, and include the accounts of the Company and its wholly-owned subsidiary. Intercompany transactions and balances have been eliminated.

The majority of the Company's sales are made in U.S. dollars ("dollars"). In addition, a substantial portion of the Company's costs are incurred in dollars. Since the dollar is the primary currency of the economic environment in which the Company operates, the dollar is its functional and reporting currency. Non dollar transactions and balances have been remeasured using the foreign exchange rate at the balance sheet date. Operational accounts and non-monetary balance sheet accounts are measured and recorded at the rate in effect at the date of the transaction. The effects of foreign currency remeasurement are reported in the statements of operations.

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.

Cash and Cash Equivalents:

The Company considers all highly liquid investments originally purchased with maturities of three months or less to be cash equivalents.

Property and Equipment:

Property and equipment are stated at cost and depreciated using the straight line method over the estimated useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized on a straight line basis over the lease term.

The Company periodically assesses the recoverability of the carrying amount of property and equipment and provides for any possible impairment loss based upon the difference between the carrying amount and fair value of such assets. As of December 31, 1998, no impairment losses have been identified.

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COMMTOUCH SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Research and Development:

Research and development costs are charged to the statement of operations as incurred. Statement of Financial Accounting Standards Board No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. The Company does not incur any costs between the completion of the working model and the point at which the product is ready for general release. Therefore, through December 31, 1998, the Company has charged all software development costs to research and development expense in the period incurred.

Revenue Recognition:

Commencing 1998, the Company derives its revenues from providing web-based email services. Revenues from contracts that are not dependent upon the number of mailboxes and provide non-refundable fixed payments are recognized ratably over the contract term. Revenues from contracts specifying a contractual rate per mailbox per month are recognized monthly for mailboxes covered by the respective contracts. Revenues from contracts based on a share of advertising revenues earned by business partners are recognized when such revenues are earned. Revenues from set up and installation fees are recognized upon installation.

Amounts billed or received in advance of service delivery are recorded as deferred revenue.

Revenues from software products sales which occurred through 1997 were recognized upon delivery of the software master for reproduction and distribution, provided no significant vendor obligations remained, and collection of the related receivable was probable in accordance with Statement of Position 91-1.

Royalty-Bearing Grants:

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, when expenses under such approved projects are incurred. Development grants amounted to none in 1996, \$288,000 in 1997 and none in 1998.

Concentrations of Credit Risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables and cash equivalents. The majority of the Company's cash and cash equivalents are invested in dollar and dollar linked investments and are deposited in major banks in Israel and in the United States. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The Company's trade receivables are derived from sales to customers located primarily in Europe, the Far East and North America. The Company performs ongoing credit evaluations of its customers. In 1997, the Company wrote off approximately \$170,000 of account receivables due from one customer that were derived from revenues recognized in 1996. The Company did not provide any allowance for doubtful accounts in 1996 relating to this customer, as the collection of the receivable was considered probable at the time. The amount was generated from sales made in the fourth quarter of 1996 while previous sales made to this customer under the same agreement were fully paid. The write off was due to a controversy

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COMMTOUCH SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

on the client's demand to change the original agreement terms and in light of the Company's decision to cease sales of software products in 1997. All other accounts receivable derived from sales of software products prior to 1998 have been fully paid. The Company has not had any bad debts for any fiscal year presented excluding the above \$170,000. Based on its historical experience the Company did not provide an allowance for doubtful accounts for all periods presented.

Accounting for Stock-Based Compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees", 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.

In accounting for warrants granted to other than employees, the provisions of Statement of Financial Accounting Standard Board ("SFAS") No. 123, "Accounting for Stock based Compensation" were applied.

Basic and Diluted Loss Per Share:

Basic and diluted net loss per share are presented in accordance with SFAS No. 128, "Earnings per Share" ("SFAS 128"), for all periods presented.

Basic net loss per share has been computed using the weighted-average number of ordinary shares outstanding during the period. Diluted net loss per share is computed based on the weighted average number of ordinary shares outstanding during each year, plus the weighted average number of dilutive potential ordinary shares considered outstanding during the year. Basic and diluted pro

forma net loss per share, as presented in the statements of operations, have been computed as described above and also give effect to the automatic conversion of the Convertible Preferred shares that will convert upon the closing of an initial public offering (using the as-if converted method from original date of issuance).

All convertible preferred shares, outstanding stock options, and warrants have been excluded from the calculation of the diluted loss per share because all such securities are antidilutive for all periods presented. The total number of shares related to the outstanding options and warrants excluded from the calculations of diluted net loss per share were 734,980, 911,680 and 1,236,100 for the years ended December 31, 1996, 1997 and 1998.

Unaudited Pro Forma Shareholders' Equity (Deficit)

If the offering contemplated by this Prospectus is consummated, all of the convertible preferred stock outstanding will automatically be converted into ordinary shares. Unaudited pro forma shareholders' equity at March 31, 1999, as adjusted for the assumed conversion of those shares outstanding at March 31, 1999 is disclosed on the balance sheet.

Comprehensive Income:

As of January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income ("SFAS 130")." SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components, however, the adoption of this Statement had no impact on the financial statements, as the Company had no items of other comprehensive income in any period presented.

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COMMTOUCH SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Severance Pay:

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

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of the deposited funds are based on the cash surrendered value of these policies, and include immaterial profits.

Fair Value of Financial Instruments:

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents -- The carrying amounts of these items approximate their fair value due to the short-term maturity of such instruments.

Short-term bank credit, long-term bank loans and capital leases -- The carrying amounts of the Company's borrowing arrangements approximate their fair value. Fair values were estimated using discounted cash flow analyses, based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

Impact of Recently Issued Accounting Standards:

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). The Company is required to adopt SFAS 133 for the year ending December 31, 2000. SFAS 133 establishes methods of accounting for derivative financial instruments and hedging activities. Because the Company currently holds no derivative financial instruments as defined by SFAS 133 and does not currently engage in hedging activities, adoption of SFAS 133 is expected to have no material effect on the Company's financial condition and results of operations.

Unaudited Information:

The financial statements include the unaudited consolidated balance sheets and the related consolidated statements of operations, changes in shareholders equity (deficit) and cash flows for the three months ended March 31, 1999. This unaudited information has been prepared by the Company on the same basis as the audited consolidated financial statements and, in management's opinion, reflects all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial information, in accordance with generally accepted accounting principles, for the period presented. Results for interim periods are not necessarily indicative of the results to be expected for the entire year.

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COMMTOUCH SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. PROPERTY AND EQUIPMENT

	DECEMBER 31,	
	-----	-----
	1997	1998
	----	----
	(IN THOUSANDS)	
Cost:		
Computers and peripheral equipment.....	\$518	\$1,260
Office furniture and equipment.....	85	90
Motor vehicles.....	103	118
Leasehold improvements.....	129	137
	-----	-----
	835	1,605
Less accumulated depreciation.....	437	673
	-----	-----
	\$398	\$ 932
	=====	=====

Computers and peripheral equipment under various capital lease agreements amounted to approximately \$328,000 and their accumulated depreciation amounted to approximately \$38,000 as of December 31, 1998.

Depreciation expenses amounted to approximately \$137,000, \$145,000, and \$236,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

3. SHORT-TERM BANK LINE OF CREDIT

As of December 31, 1998, the Company has an authorized line of credit in the amount of \$1,300,000 which was fully utilized. The credit line bears interest at an annual rate of LIBOR + 3%. For overdrawn amounts in excess of the Company's authorized line of credit, the Company is subject to an annual interest rate of LIBOR + 8%.

Weighted average interest for 1997 and 1998 was LIBOR +3%.

In consideration of the line of credit, the bank is entitled to receive warrants for ordinary shares at an exercise price equal to the par value subject to the outstanding utilized line of credit per month (see Note 9).

As collateral for all the Company's liabilities to the bank, a floating charge (security interest on all assets of the Company as they exist from time to time) has been placed on all assets of the Company, and the Company's authorized share capital, goodwill and insurance rights are pledged at fixed charges.

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COMMTOUCH SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. LONG-TERM BANK LOANS AND CAPITAL LEASES

	DECEMBER 31,	
	1997	1998
	-----	-----
	(IN THOUSANDS)	
Bank loans -- Israeli CPI, interest rates range from 5.3% - 6.3%.....	\$ 64	\$ --
Bank loans -- U.S. Dollar, interest rates range from 8.3% - 9.7%.....	30	--
Capital leases.....	--	276
	-----	-----
	94	276
Less current portion.....	66	112
	-----	-----
	\$ 28	\$ 164
	=====	=====

In 1998, the Company has repaid its Bank loans.

CSI has leased computers and peripheral equipment under various capital lease agreements, with an option to purchase the equipment upon the expiration of the initial lease term, for the fair market value prevailing at that time, not to exceed 10% of the original cost of the equipment. The annual interest rate of such capital leases ranges between 19.5% and 21.9%.

Future minimum lease commitments for the years ending December 31, are as follows, in thousands:

1999.....	\$158
2000.....	136
2001.....	23
2002.....	23
2003.....	17

	357
Less amount representing interest.....	81

	\$276
	=====

5. ACCRUED SEVERANCE PAY

The Company's liability for severance pay, pursuant to Israeli law, is fully provided. Part of the liability is funded through insurance policies which are designated only for severance payments. The value of these policies is recorded as an asset in the Company's balance sheet. Severance expenses for the years ended December 31, 1996, 1997, and 1998, were approximately \$105,000, \$73,000 and \$62,000, respectively.

6. COMMITMENTS AND CONTINGENT LIABILITIES

Operating Leases:

The facilities of the Company and CSI are leased under operating leases for periods ending in 2005.

Future minimum lease commitments under non-cancelable operating leases for the years ending December 31, are as follows, in thousands:

1999.....	\$197
2000.....	170
2001.....	154
2002.....	89
2003.....	53

	\$663
	====

Rent expenses for the years ended December 31, 1996, 1997 and 1998 were approximately \$49,000, \$55,000 and \$56,000, respectively. CSI expanded its facilities by entering into an additional office lease starting 1999, for which the commitment is reflected above.

Royalties:

The Company is required to pay royalties on grants received from the Government of Israel for research and development projects and marketing activities at the rate of 3% - 5% of total revenues, up to an amount equal to 100% to 150% of the original amount received linked to the dollar.

As of December 31, 1998, the Company had an outstanding contingent obligation to pay royalties in the aggregate amount of \$532,000.

7. RELATED PARTIES

During 1995, the Company issued ordinary shares to three of its directors in exchange for notes receivables. The notes are linked to the Israeli CPI with no additional interest and at December 31, 1998, the total amount outstanding was approximately \$77,000 to be repaid by December 31, 1999. These notes are recorded as an offset to additional paid-in capital. The Company believes that the terms under which these notes have been provided by the Company are as favorable to those that could be agreed upon with an unaffiliated party.

8. INCOME TAXES

Israeli Income Tax:

The Company has been granted "Approved Enterprise" status in two separate investment programs approved in 1993 and 1995 by the Israeli Government under the Law for Encouragement of Capital Investments, 1959 ("the Law").

Undistributed Israeli income derived from each of its "Approved Enterprise" programs entitle the Company to tax-exemption for a period of two years commencing the first year it will earn taxable income (not commenced yet) and to a reduced tax rate of 10% - 25% for an additional period of eight years (depending on the level of foreign-investment in the Company). These tax benefits, are subject to a limitation of the earlier of twelve years from commencement of operation, or fourteen years from receipt of approval. Thereafter, the Company's income will be subject to the regular income tax rate of 36%.

The Company's first investment program commenced operation in 1995, while the second program has not yet been completed.

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The tax exempt income attributable to the "Approved Enterprise" can be distributed to shareholders without subjecting the Company to taxes only upon the complete liquidation of the Company. The Company's board of directors has determined that such tax exempt income will not be distributed as dividends.

Income from sources other than the "Approved Enterprise," during the benefit period, will be subject to tax at regular corporate tax rates of 36%.

The Company is an "industrial company" under the Law for the Encouragement of Industry (Taxation), 1969 and as such is entitled to certain tax benefits, including accelerated rate of depreciation and deduction of public offering expenses.

As of December 31, 1998, Israeli net operating loss carryforwards amounted to approximately \$5,700,000. Such net operating loss may be carried forward indefinitely and offset against future taxable income. The Company expects that during the period in which these tax losses are utilized its income would be substantially tax exempt. Accordingly there will be no tax benefit available from such losses and no deferred income taxes have been included in these financial statements.

U.S. Income Tax:

As of December 31, 1998, CSI has U.S. federal net operating loss carryforwards of approximately \$4,700,000. The net operating loss expires in various amounts between the years 2010 and 2016.

Utilization of U.S. net operating losses may be subject to the substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

Deferred Taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	DECEMBER 31,	
	1997	1998
	(IN THOUSANDS)	
Deferred tax assets:		
U.S. operating loss carryforwards.....	\$1,052	\$1,656
Reserves and allowances not currently deductible.....	6	15
	-----	-----
Net deferred tax asset before valuation allowance.....	1,058	1,671
Valuation allowance.....	(1,058)	(1,671)
	-----	-----
Net deferred tax asset.....	\$ --	\$ --
	=====	=====

For the year ended December 31, 1998 the valuation allowance increased by approximately \$613,000. No utilization of CSI's tax losses carryforwards is expected in the foreseeable future, because of its history of operating losses. In 1996, 1997 and 1998, the Company provided a 100% valuation allowance against the deferred tax assets in respect of these tax loss carryforward and other temporary differences because of the uncertainty of realizing these deferred tax assets.

Pretax loss:

YEAR ENDED DECEMBER 31,		
1996	1997	1998
-----	-----	-----

(IN THOUSANDS)

Domestic.....	\$ 809	\$1,602	\$2,497
Foreign.....	473	1,871	1,854
	-----	-----	-----
	\$1,282	\$3,473	\$4,351
	=====	=====	=====

9. SHARE CAPITAL

Convertible Preferred Shares:

ORIGINAL ISSUANCE PRICE	NUMBER OF SHARES						
	DECEMBER 31, 1997		DECEMBER 31, 1998		MARCH 31, 1999		
	AUTHORIZED	ISSUED AND OUTSTANDING	AUTHORIZED	ISSUED AND OUTSTANDING	AUTHORIZED	ISSUED AND OUTSTANDING	
						(UNAUDITED)	
Series A.....	\$17.02	200,000	97,878	200,000	97,878	200,000	97,878
Series B.....	\$44.04	200,000	62,438	200,000	62,438	200,000	62,438
Series C.....	\$72.17	100,000	23,321	124,250	60,949	165,820	153,093
		500,000	183,637	524,250	221,265	565,820	313,409
		=====	=====	=====	=====	=====	=====

Conversion

Each share of Series A, B and C Convertible Preferred share is convertible into ordinary shares on a twenty-to-one basis (reflecting the April 1999 stock split and subject to adjustment for stock splits, stock dividends and alike).

All Convertible Preferred shares shall be automatically converted immediately prior to the consummation of an initial public offering ("IPO") in which the proceeds to the Company are not less than \$10,000,000 and in which the Company's valuation is not less than \$30,000,000.

The pro forma shareholders' deficit gives effect to the conversion of all outstanding Convertible Preferred shares as if such conversion occurred on December 31, 1998.

Voting Rights

The holders of Convertible Preferred shares are entitled to vote on all matters submitted to the shareholders with such number of votes which is equal to the number of ordinary shares into which such Preferred shares could be converted.

Liquidation Preference

The Convertible Preferred shares have preference over the Ordinary shares, in the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary. The liquidation preference is equal to the greater of the full amount originally paid multiplied by 1.5, together with declared but unpaid dividends in respect thereof or the pro rata amount that would have been received had all of the Convertible Preferred shares been converted into ordinary shares immediately prior to such distribution.

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COMMTOUCH SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dividends

The holders of any series of the convertible preferred shares shall be entitled to receive dividends as and when declared for the holders of ordinary shares, *pari passu*, calculated on the basis of the number of Ordinary shares into which such Convertible Preferred shares could then be converted, out of any assets legally available.

In the event that cash dividends are declared in the future, such dividends will be paid in NIS. The Company does not intend to pay cash dividends in the

foreseeable future.

Warrants Issued for Services Received and Bank Lines of Credit:

In 1997, 1998 and in the three months ended March 31, 1999, the Company granted warrants in connection with a bank line of credit, loans, and consulting services received. Warrants outstanding at March 31, 1999:

ISSUE DATE	IN CONNECTION WITH	WARRANTS FOR		EXERCISE PRICE PER SHARE	EXERCISABLE THROUGH
		ORDINARY SHARES	CONVERTIBLE PREFERRED SHARES		
December 1997 through October 1998	bank line of credit	59,060		par value	December 2000
November 1998 through March 1999	bank line of credit	33,280		par value	October 2001
December 1997	bank loan		346 Series C	\$72.17	December 2002
June 1997	bank loan		568 Series B	\$44.04	June 2002
September 1997	consulting services		300 Series C	par value	(1)
April 1998	consulting services		350 Series B	par value	(1)
July 1998	lease commitment		243 Series C	\$72.17	July 2005
		92,340	1,807		

(1) The earlier of December 2002 or an IPO with net proceeds to the Company of \$10,000,000, or a merger or an acquisition.

In addition, in February 1998, in consideration of consulting services received, the Company issued warrants for 35,600 ordinary shares at \$0.36 per share. The warrants were exercised in October 1998, with the ordinary shares issued in the first quarter of 1999 (see Note 11).

In connection with the amounts of the warrants:

The Company recorded \$17,000, \$264,000 and \$255,000 as compensation expense in 1997, 1998 and the three months ended March 31, 1999, that were included in interest expense, and \$21,000 and \$135,000 in 1997 and 1998 that were included for operating expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Warrants to Investors:

The Company issued to certain Series B Convertible Preferred shares investors 13,873 warrants to Series B Convertible Preferred shares in consideration of their investment in the Company. The warrants have an exercise price of \$44.04 per share and are exercisable through the earlier of the consummation of an IPO with net proceeds to the Company of at least \$10,000,000 or the consummation of the sale of all or substantially all of the assets or shares of the Company. The warrants may be exercised for cash or on a net exercise basis.

Issuance of Ordinary Shares against Promissory Notes:

On March 17, 1999, several employees and officers exercised 662,680 options granted to them by CommTouch. In consideration for the ordinary shares purchased pursuant to the exercise of the options, they provided CommTouch with full recourse Promissory Notes dated March 17, 1999 in the original principal amount of approximately \$887,000. The Promissory Notes bear interest at 4.83%, with payments of interest due on December 31 of each year and with the balance due and payable on the fourth anniversary of the date of the promissory notes. The shares purchased are restricted shares, and are subject to a right of repurchase

in favor of CommTouch according to the original vesting schedule of the options exercised, generally four years.

Stock Options:

The Company issued options to purchase ordinary shares to its Israeli employees pursuant to individual agreements. In 1996, the Company adopted the 1996 CSI Stock Option Plan for granting options to its U.S. employees to purchase ordinary shares of the Company. As of December 31, 1998 the Company has reserved 2,000,000 ordinary shares. Options granted under such plan and agreements expire generally after 10 years from the date of grant and terminate upon termination of the optionee's employment or other relationship with the Company. The options vest generally ratably over a 4 year period. The exercise price of the options granted under the individual agreements may not be less than the nominal value of the shares into which such options are exercisable or in the case of the subsidiary's plan it may not be less than fair market value. Any options which are canceled or not exercised within the options period become available for future grant.

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COMMTouch SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A summary of the Company's stock option activity, and related information is as follows:

	NUMBER OF SHARES				WEIGHTED AVERAGE EXERCISE PRICE			
	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	YEARS ENDED			THREE MONTHS ENDED MARCH 31,
	1996	1997	1998	1999	1996	1997	1998	1999
				(UNAUDITED)				(UNAUDITED)
Outstanding at beginning of period.....	31,000	457,520	607,040	849,520	\$1.45	\$0.99	\$1.10	\$1.20
Granted.....	426,520	213,820	251,900	508,020	0.96	1.45	1.45	1.45
Exercised.....	--	--	--	(662,680)	--	--	--	1.34
Forfeited.....	--	(64,300)	(9,420)	--	--	1.45	1.45	--
Outstanding at end of period....	457,520	607,040	849,520	694,860	\$0.99	\$1.10	\$1.20	\$1.25
Exercisable at end of period....	7,760	165,480	375,580	403,880	\$1.45	\$1.45	\$1.45	\$1.45
Deemed fair value of options granted at an exercise price of:								
-- Less than fair value at date of grant.....	\$ --	\$ --	\$ 2.46					
-- Equals to fair market value at date of grant.....	\$ 0.45	\$ 0.61	\$ --					
-- Exceeds fair value at date of grant.....	\$ 0.23	\$ --	\$ --					

The options outstanding as of December 31, 1998, have been separated into ranges of exercise price, as follows:

EXERCISE PRICE	OPTIONS OUTSTANDING AS OF DECEMBER 31, 1998	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.01	101,520	7.20	\$0.01
\$1.10 - \$1.45	676,480	8.67	\$1.27
\$2.20	71,520	7.58	\$2.20
-----	=====	=====	=====
\$0.01 - \$2.20	849,520	8.40	\$1.20

Under SFAS 123, pro forma information regarding net income and earnings per share is required (for grants issued after December 1994), and has been determined as if the Company had accounted for its employee stock option under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following weighted-average assumptions for 1996, 1997 and 1998: risk-free interest rates of approximately 6%, dividend yields of 0%, volatility factors of the expected market price of the Company's Ordinary shares of 0.5 for 1996, 1997 and 1998 and an expected life of the option of 3.5 years, 2.5 years and 1.5 years after the option is vested for 1996, 1997 and 1998, respectively, but not sooner than December 1999.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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COMMTOUCH SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Pro forma information under SFAS 123:

	DECEMBER 31,		
	1996	1997	1998
	(IN THOUSANDS)		
Net loss as reported.....	\$ (1,282)	\$ (3,473)	\$ (4,351)
Pro forma net loss.....	\$ (1,368)	\$ (3,600)	\$ (4,402)
Pro forma basic and diluted net loss per share.....	\$ (0.71)	\$ (2.48)	\$ (3.04)

The Company recorded deferred compensation representing the difference between the exercise price and the deemed fair value of the Company's ordinary share at the date of grant. Such amount is being amortized based on an accelerated vesting method over the vesting period of the options, generally 4 years.

	DEFERRED COMPENSATION
	(IN THOUSANDS)
Balance as of January 1, 1998.....	\$ --
Deferred compensation related to options issued to employees.....	509
Less amortization of deferred compensation.....	91
Balance as of December 31, 1998.....	\$418

10. SELECTED STATEMENTS OF OPERATIONS DATA

Geographic information:

The Company manages its business on the basis of one reportable segment and attributes revenues based on the customers' location, as follows:

	REVENUES		
	1996	1997	1998
	(IN THOUSANDS)		
Israel.....	\$ 522	\$ 1	\$ --
U.S.A.....	2,072	543	109
Europe.....	19	28	130
Japan.....	380	282	103
Other.....	141	45	47
	-----	-----	-----
	\$3,134	\$899	\$389
	=====	=====	=====

The Company's long-lived assets as of December 31, are as follows:

	1996	1997	1998
	-----	-----	-----
	(IN THOUSANDS)		
Israel.....	\$ 434	\$365	\$291
U.S.A.....	48	33	641
	-----	-----	-----
	\$ 482	\$398	\$932
	=====	=====	=====

11. SUBSEQUENT EVENTS

Series C Convertible Preferred Shares Financing and Exercise of Warrants to Ordinary Shares

In the first quarter of 1999, the Company issued 92,144 Series C Convertible Preferred Shares of NIS 1.0 par value and 35,000 ordinary shares in connection with the exercise of warrants in consideration of

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COMMTouch SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

approximately \$6,596,000 in net proceeds to the Company. An aggregate amount of \$1,304,000 was received in October and December 1998 in respect of those shares and was recorded in additional paid in capital.

Convertible Notes Financing

In April 1999, the Company issued convertible promissory Notes (the "Notes") to investors resulting in estimated net cash proceeds of approximately \$13,237,000. The Notes have since converted into 42,081 Series D Convertible Preferred Shares and will further convert into 841,620 ordinary shares upon the completion of the IPO. If the Company does not consummate an IPO or a sale of more than 50% of the shares of the Company within twelve months of the closing of the Series D Convertible Preferred Shares, a ratchet provision will come into effect, providing the shareholders with 42,081 additional Series D Convertible Preferred Shares with no additional consideration.

In April 1999, subsequent to the Convertible Notes financing, the Company fully repaid its short-term bank line of credit.

Proposed Public Offering and Related Matters:

The Board of Directors has authorized the Company to file a registration statement with the United States Securities and Exchange Commission for an IPO of its ordinary shares.

In April 1999, the Board of Directors approved a twenty for one ordinary stock split. The stock split will be effected prior to the effective date of the IPO. All Ordinary share numbers, ordinary share option and warrant numbers and Convertible Preferred Shares Conversion ratios have been retroactively adjusted to reflect the stock split. In connection with the IPO, all of CommTouch's Convertible Preferred Shares outstanding will be converted into Ordinary Shares.

Strategic Transaction with an Investor

On July 7, 1999 CommTouch executed a Memorandum of Understanding with two new investors. According to this Memorandum, concurrently with the effectiveness of this offering, the Company will offer 1,344,086 ordinary shares to the new investors. In addition, concurrently with the effectiveness of this offering, CommTouch will enter into an agreement with one of the investors pursuant to which the Company will offer the investor's end users a private label email service in return for sharing future revenues generated by the investor's use of the Company's services. In connection with that agreement, CommTouch will grant the investor warrants to purchase 1,136,000 ordinary shares at a per share exercise price of \$12.80 subject to adjustment as set forth in the warrant.

Employee Stock Purchase Plan

The CommTouch 1999 Employee Stock Purchase Plan was adopted by the Board of Directors on April 18, 1999 to be effective upon the completion of CommTouch's IPO of its ordinary shares, subject to shareholders' approval. CommTouch has reserved a total of 150,000 shares for issuance under the plan. Eligible employees may purchase Ordinary Shares at 85% of the lesser of the market value of CommTouch's ordinary shares on the first day of the applicable offering period or the last day of the applicable purchase period.

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COMMTouch SOFTWARE, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Non-Employee Directors Stock Option Plan

The CommTouch 1999 Non-Employee Director Stock Option Plan was adopted, subject to shareholder approval, by the Board of Directors on April 18, 1999 to be effective upon the completion of a CommTouch IPO. CommTouch has reserved a total of 250,000 shares for issuance under this plan. Each individual who first joins the Board of Directors as a nonemployee director on or after the effective date of this offering will receive an option grant for 10,000 ordinary shares. Each option granted under the Non-Employee Directors Plan shall become exercisable with respect to one-fourth of the number of shares covered by such option three months after the date of grant and with respect to one-third of the remaining shares subject to the option every three months thereafter. Each option will have an exercise price equal to the fair market value of the ordinary shares on the grant date of such option. Each option will have a maximum term of ten years, but will terminate earlier if the optionee ceases to be a member of the Board of Directors.

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[DESCRIPTION OF COVER GRAPHICS]

DESCRIPTION OF INSIDE FRONT FLAP GRAPHIC

The inside front flap consists of a box in the upper right-hand corner that contains seven smaller boxes with checks inside each box. Next to each of the boxes is a short phrase. These phrases are: "customized branded email, 14 languages, integrated unified messaging, turnkey e-marketing, scalable to millions of users, cost effective, rapid deployment." Running down the left-hand side of the page from the top to the middle in large type is the phrase "For all email and messaging needs . . ." Beneath this box is an arrow pointing towards an envelope. Extending to the right of the envelope is an arrow pointing to the right-hand side of the page. Within this arrow is the company logo (the word "commtouch" with the second "m" tilted and encircled).

DESCRIPTION OF INSIDE FRONT COVER GRAPHIC

The inside front cover consists of a two-page spread. There are several images and text paragraphs on the spread. Starting from the upper left corner of the spread and working clockwise, there is an image of a mailbox. To the right of this image is a heading in large bold text that reads "Customized Branded Email." Below the heading is italicized text that reads "Email is one of the most widely used applications on the Internet. A company can build its brand online with CommTouch's highly customized solutions." Continuing clockwise is a heading in large bold text that reads "Integrated Unified Messaging." Below the heading is italicized text that reads "Our technology delivers a fully integrated email solution -- a platform for unified messaging that includes email, voice, fax, and pager communications, all synchronized with offline client applications." To the right of this text is an image of a laptop computer. To the right of the image of the laptop there is a heading in large bold text that reads "Powerful Partnerships." Below the heading is italicized text that reads, "Some of the largest and best-known brands, web-based companies, and Internet businesses across the globe have turned to CommTouch for their messaging needs. Our technology delivers solutions to companies online, from small businesses to multinational corporations." In the middle of the right page is a heading in large bold text that reads "Secure Scalable Technology." Below the heading is italicized text that reads "With over eight years of email application development behind us, we provide one of the most scalable and flexible email hosting platforms available. Our modular environment and proprietary programming code deliver superior performance levels in email service." To the left of this text is an image of a Greek structure. Beneath this text is the company's logo, and underneath the logo is the company's website address (www.commtouch.com). Below this image is a heading in large bold text that reads "Building Revenues." Below the heading is italicized text that reads "With CommTouch, business partners and webmasters can enable turnkey e-marketing and create e-commerce opportunities immediately. Our Premium Services are designed to help our business partners build strong relationships with their end users. To the left of this is a heading in large bold text that reads "Instant Community." Below the heading is italicized text that reads "Through our ZapZone Network service, membership/affinity websites and personal homepage owners can provide the CommTouch solution to their online users in less than ten minutes." To the left of this text is a stopwatch. In the lower-left hand corner of the page is a partial image of a globe. Above the globe and extending up along the left side of the page are eight country flags. To the right of the flags is a heading in large bold text that reads "A Multiple Language Solution." Below it is italicized text that reads "Email in 14 languages, with more coming online; deployed by customers in over 150 countries worldwide." Connecting the images in the background are dashed lines.

Centered at the bottom of the inside front cover is the sentence, "all trademarks and registered trademarks are the property of their respective owners."

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DESCRIPTION OF INSIDE BACK COVER GRAPHIC

The inside back cover has three screen shots representing examples of the company's email services. Starting from the upper-right hand corner, the upper screen shot shows an image from the website of Excite Japan (www.excite.co.jp), one of the company's business partners. To the left of this image is a large bold heading that reads "Community." Below the heading is text that reads "Excite Japan needed multiple localized email services to build its international online community. CommTouch delivers." Halfway down the page, the middle screen shot shows an image from the website of Talk City (www.talkcity.com), one of the company's business partners. To the right of this image is a large bold heading that reads "Commerce." Below the heading is text that reads "Talk City needed a high level of customization to build its brand with its online audience and help build ecommerce. CommTouch delivers." On the bottom of the page, the lower screen shot shows an image from the website of the company's ZapZone Network service (www.zzn.com). To the right of this image is a large bold heading that reads "Commitment." Below the heading is text that reads "Thousands of webmasters and homepage owners around the world need a turnkey web-based email solution. CommTouch delivers." In the background there is a shaded "m" from the company's logo. At the bottom of the page is the company's logo and website address.

DESCRIPTION OF OUTSIDE BACK COVER GRAPHIC

The outside back cover has the company's logo, the phrase "The global email messaging solution" and the company's website address, www.commtouch.com.

[DESCRIPTION OF INTERIOR GRAPHICS]

On page 39, there is a graphic labeled "Hardware Infrastructure." Starting from the top, there are cylinders labeled "Database" and "User's Mailboxes." Below these cylinders are pictures of computers labeled SQL Servers, Mail Servers, and Web Servers. The Database cylinder is connected with a line to the SQL Servers, and the User's Mailboxes cylinder is connected with a line to the Mail Servers.

Below the servers, there are lines connecting the servers to icons of computer hardware. Below the SQL Servers is text reading "ODBC Compliant Database," and a line connecting the SQL Servers to an icon labeled "Local Routers." Below the Mail Servers is text reading "IMAP4 Compliant," and a line connecting the Mail Servers to an icon labeled "Router." Below the Web Servers, there is text reading "Microsoft - IIS," and a line connecting the Web Servers to an icon labeled "DNS." The DNS and Router icons are connected by a line to a cloud labeled "Internet."

On page 41, there is a graphic labeled "ADML Flow Chart." This is a flow chart with five levels. Starting from the left of the top row, there is a cylinder labeled "Languages Resource Database." In the middle of the top row is a rectangle labeled "ADML files." On the right of the top row is a cylinder labeled "Company-Dependent Database." The top row is connected, with lines and an arrow pointing downward, to an oval labeled "ADML CommTouch Compiler." This is connected, with an arrow pointing downward, to a rectangle labeled "ASP files." On the left of this rectangle is a cylinder labeled "User-Dependent Database." These two shapes are connected to each other, and to an arrow pointing down towards an oval labeled "ASP Interpreter." This oval is connected, with an arrow pointing downwards, to a rectangle labeled "HTML files."

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3,000,000 ORDINARY SHARES

COMMTouch SOFTWARE LTD.

LOGO

PROSPECTUS

Until , 1999, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

U.S. Bancorp Piper Jaffray

Prudential Securities

Warburg Dillon Read LLC

JULY , 1999

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the expenses payable by the Company (the "Registrant") in connection with the offering of the securities being registered, other than the underwriting discounts and commissions. All of the amounts are estimates except for the SEC registration fee, the NASD filing fee and the Nasdaq National Market filing fee.

SEC registration fee.....	\$	16,305
NASD filing fee.....		6,500
Nasdaq National Market filing fee.....		48,750

Blue Sky fees and expenses.....	10,000
Printing and engraving expenses.....	300,000
Israeli Stamp Duty.....	480,000
Legal fees and expenses.....	900,000
Accounting fees and expenses.....	400,000
Transfer agent and registrar fees and expenses.....	10,000
Miscellaneous expenses.....	258,445

Total.....	\$2,430,000
	=====

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Articles of Association provide that the Registrant will indemnify any Office Holder of the Registrant as defined in the Companies Ordinance out of the assets of the Registrant against all liabilities incurred bona fide by such Office Holder in the line of his duties for the Registrant or related thereto.

Reference is made to Section 6 of the Underwriting Agreement, a copy of which is filed as Exhibit 1.1 hereto, which provides for indemnification of the directors and officers of the Registrant who sign the Registration Statement by the Underwriters against certain liabilities, including those arising under the Securities Act, in certain circumstances.

In addition, the Registrant intends to secure insurance for its directors and officers.

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

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

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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 by him in connection with the proceeding.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Since April 1996, we have sold and issued the securities listed below without registering the securities under the Securities Act of 1933, as amended. None of these transactions involved any underwriters underwriting discounts or commissions, or any public offering.(1)

(1) In May 1996, we issued and sold for cash 11,353 Series B Convertible Preferred Shares at a price of \$44.04 per share to C.S.K. Venture Capital Co. Ltd. ("C.S.K."). In connection with this issuance, we also issued warrants to purchase 2,522 Series B Convertible Preferred Shares at an exercise price of NIS

1 per share to C.S.K.

(2) Between July 1997 and March 1999, we issued and sold for cash 153,093 Series C Convertible Preferred Shares at a price of \$72.17 per share to 22 investors.

(3) In April 1999, we issued Convertible Promissory Notes that have since converted into 42,081 Series D Convertible Preferred Shares. The effective price for each Series D Preferred Share was \$314.56.

We believe that each transaction listed above was exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) of the Securities Act, Regulation D, promulgated under the Securities Act or Rule 701 with respect to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and warrants issued in such transactions. All recipients had adequate access, through their relationships with us, to information about us.

(1) Share figures and price-per-share figures do not reflect the one-for-twenty stock split.

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ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION OF DOCUMENT -----
*1.1	Form of Underwriting Agreement.
*3.1	Memorandum of Association of the Registrant.
*3.2	Articles of Association of the Registrant.
*4.1	Specimen Certificate of Ordinary Shares.
*4.2	Amended and Restated Registration Rights Agreement dated as of April 19, 1999.
*4.3	Form of Tag-Along Rights (Right of First Refusal and Co-Sale) Agreement dated as of December 23, 1998.
*4.4	Form of Drag-Along Letter dated as of April 15, 1999.
*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.
*10.1	Registrant's 1996 CSI Stock Option Plan and forms of agreements thereunder.
*10.2	Registrant's form of Stock Option Agreement for Israeli Employees.
*10.3	Registrant's 1999 Stock Option Plan and form of agreement thereunder.
*10.4	CommTouch Software Ltd. 1999 Nonemployee Directors Stock Option Plan.
*10.5	CommTouch Software Ltd. 1999 Employee Stock Purchase Plan and forms thereunder.
*10.6	Sublease between ASCII of America, Inc. and CommTouch for CommTouch's offices in Santa Clara, California, dated December 16, 1998.
*10.7	Lease between DeAnza Building and CommTouch for CommTouch's offices in Sunnyvale, California, dated February 5, 1996, as amended.
*10.8	Form of Letter Agreement between the Registrant and U.S. Bancorp Piper Jaffray.
10.9	Form of Customized Web-based Email Service Agreement between Go2Net, Inc. and the Registrant.
10.9.1	Form of Share Warrant for Go2Net, Inc. to purchase ordinary shares of the Registrant.
10.10	Form of Share Purchase Agreement among the Registrant,

- Go2Net, Inc. and Vulcan Ventures Incorporated.
- 10.10.1 Form of Registration Rights Agreement by and among the Registrant, Go2Net, Inc. and Vulcan Ventures Incorporated.
- *21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Kost, Forer & Gabbay, independent auditors.
- *23.2 Consent of Naschitz, Brandes & Co. (contained in Exhibit 5.1.)
- *23.3 Consent of McCutchen, Doyle, Brown & Enersen, LLP.
- *23.4 Consent of International Data Corporation.
- *23.5 Consent of Richard Sorkin and Power of Attorney.
- *23.6 Consent of Thomas M. Camp.
- *24.1 Power of Attorney.
- *99.1 Press Release of the Registrant, dated July 7, 1999.
- *99.2 Memorandum of Understanding between the Registrant, Go2Net, Inc. and Vulcan Ventures, Incorporated, dated July 7, 1999.

* Previously filed.

(b) FINANCIAL STATEMENT SCHEDULES.

Schedule II

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ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes that:

(1) For the purpose of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 297(h) under the Securities Act shall be deemed to be part of this Registration Statement at the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus 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.

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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 has

duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Palo Alto, state of California, on July 12, 1999.

COMMTOUCH SOFTWARE LTD.

By /s/ GIDEON MANTEL

 Gideon Mantel
 Chief Executive Officer

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

NAME ----	TITLE -----	DATE ----
----- /s/ GIDEON MANTEL ----- Gideon Mantel	Chief Executive Officer and Director (Principal Executive Officer)	July 12, 1999
----- /s/ JAMES E. COLLINS ----- James E. Collins	Chief Financial Officer (Principal Financial Officer)	July 12, 1999
----- /s/ MISHAEL MATZRAFI ----- Mishael Matzrafi	Controller	July 12, 1999
----- /s/ AMIR LEV ----- Amir Lev	Director	July 12, 1999
----- /s/ YIFTAH ATIR ----- Yiftah Atir	Director	July 12, 1999
----- /s/ ALLAN C. BARKAT ----- Allan C. Barkat	Director	July 12, 1999
----- /s/ YAIR SAFRAI ----- Yair Safrai	Director	July 12, 1999
----- /s/ YOSEPH SELA ----- Yoseph Sela	Director	July 12, 1999
----- /s/ JAMES E. COLLINS ----- James E. Collins	Attorney-in-fact and Authorized U.S. Representative	July 12, 1999

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COMMTOUCH SOFTWARE LTD.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
U.S. DOLLARS IN THOUSANDS

BALANCE AT THE BEGINNING OF THE PERIOD -----	CHARGED TO COSTS AND EXPENSES (1) -----	DEDUCTIONS (2) -----	BALANCE AT END OF THE PERIOD -----
--	--	-------------------------	---

Year ended December 31, 1996:				
Bad debt.....	--	--	--	--
	=====	=====	=====	=====
Year ended December 31, 1997:				
Bad debt.....	--	170	--	--
	=====	=====	=====	=====
Year ended December 31, 1998:				
Bad debt.....	--	--	--	--
	=====	=====	=====	=====

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- (1) The charge refers to a write off of a bad debt as further disclosed in note 1 of the financial statements under the caption "concentration of credit risk." This amount was charged to general and administrative expenses during 1997 since an allowance for doubtful accounts was only deemed necessary during 1997, prior to year end, as it became clear that the amount had turned into a bad debt. The Company wrote off the allowance for doubtful accounts against the account receivable. This resulted in no allowance for doubtful accounts as of December 31, 1997.
- (2) The deductions refer to valuation allowance for doubtful accounts which became bad debts.

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[ERNST & YOUNG LETTERHEAD]

To: Board of Directors
CommTouch Software LTD.

We have audited the consolidated financial statements of CommTouch Software LTD. as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, and have issued our report thereon dated March 15, 1999 (except for Note 11, as to which the date is July 12, 1999) (included elsewhere in this Registration Statement). Our audits also included the financial statement schedule listed in Item 16(b) of this Registration Statement. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ KOST, FORER & GABBAY

Kost, Forer & Gabbay
A member of Ernst & Young
International

Tel-Aviv, Israel

July 12, 1999

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT	SEQUENTIALLY NUMBERED PAGE
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*1.1	Form of Underwriting Agreement.	
*3.1	Memorandum of Association of the Registrant.	
*3.2	Articles of Association of the Registrant.	
*4.1	Specimen Certificate of Ordinary Shares.	
*4.2	Amended and Restated Registration Rights Agreement dated as	

- of April 19, 1999.
- *4.3 Form of Tag-Along Rights (Right of First Refusal and Co-Sale) Agreement dated as of December 23, 1998.
 - *4.4 Form of Drag-Along Letter dated as of April 15, 1999.
 - *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.
 - *10.1 Registrant's 1996 CSI Stock Option Plan and forms of agreements thereunder.
 - *10.2 Registrant's form of Stock Option Agreement for Israeli Employees.
 - *10.3 Registrant's 1999 Stock Option Plan and form of agreement thereunder.
 - *10.4 CommTouch Software Ltd. 1999 Nonemployee Directors Stock Option Plan.
 - *10.5 CommTouch Software Ltd. 1999 Employee Stock Purchase Plan and forms thereunder.
 - *10.6 Sublease between ASCII of America, Inc. and CommTouch for CommTouch's offices in Santa Clara, California, dated December 16, 1998.
 - *10.7 Lease between DeAnza Building and CommTouch for CommTouch's offices in Sunnyvale, California, dated February 5, 1996, as amended.
 - *10.8 Form of Letter Agreement between the Registrant and U.S. Bancorp Piper Jaffray.
 - 10.9 Form of Customized Web-based Email Service Agreement between Go2Net, Inc. and the Registrant.
 - 10.9.1 Form of Share Warrant for Go2Net, Inc. to purchase ordinary shares of the Registrant.
 - 10.10 Form of Share Purchase Agreement among the Registrant, Go2Net, Inc. and Vulcan Ventures Incorporated.
 - 10.10.1 Form of Registration Rights Agreement by and among the Registrant, Go2Net, Inc. and Vulcan Ventures Incorporated.
 - *21.1 Subsidiaries of the Registrant.
 - 23.1 Consent of Kost, Forer & Gabbay, independent auditors.
 - *23.2 Consent of Naschitz, Brandes & Co. (contained in Exhibit 5.1.)
 - *23.3 Consent of McCutchen, Doyle, Brown & Enersen, LLP.
 - *23.4 Consent of International Data Corporation.
 - *23.5 Consent of Richard Sorkin and Power of Attorney.
 - *23.6 Consent of Thomas M. Camp.
 - *24.1 Power of Attorney.
 - *99.1 Press Release of the Registrant, dated July 7, 1999.
 - *99.2 Memorandum of Understanding between the Registrant, Go2Net, Inc. and Vulcan Ventures, Incorporated, dated July 7, 1999.

* Previously filed.

THIS CUSTOMIZED WEB-BASED EMAIL SERVICE AGREEMENT (the "AGREEMENT") is entered into as of July __, 1999 (the "EFFECTIVE DATE") between CommTouch Software, Inc. ("COMMTOUCH"), a California corporation with offices at 3945 Freedom Circle, Suite 730, Santa Clara CA 95054 and Go2Net, Inc. (the "BUSINESS PARTNER"), a Delaware corporation with offices at 999 Third Avenue, Suite 4700, Seattle, Washington, 98104.

WHEREAS:

A. CommTouch has developed a turnkey solution for web-based email products and services, which it can privately label and customize to the Business Partner's own "look and feel" and other requirements.

B. Business Partner desires CommTouch to provide to the Business Partner customized web-based email products and services for the web sites of any of its properties in the narrowband and broadband environments (including cable subscribers of Charter Communications and its affiliates, users of services offered by High Speed Access Corp. and any browser, website, ISP, DSL provider or similar service that the Business Partner sponsors or provides content to) (the "BUSINESS PARTNER WEB SITES"), on the terms and conditions provided in this Agreement.

In consideration of the promises and the mutual covenants contained in this Agreement, the parties agree as follows:

1. DEFINITIONS.

1.1 "ADVERTISEMENT INVENTORY" means the aggregate advertising availability on all Email pages of the Custom Mail Services described in Section 2 below.

1.2 "ADVERTISEMENTS" means advertising banners, sponsorships and other advertising displayed on Custom Mail Services pages, as well as any advertising revenue generated directly through the use of the Custom Mail Service such as direct Email.

1.3 "ARTWORK" means the artwork, logos, text, graphics and other trademarks of the Business Partner to be used in developing the Custom Mail Services.

1.4 "CUSTOM MAIL SERVICES" means CommTouch's web-based email and other products described in Section 2 below as customized for use by the Business Partner. The Custom Mail Services, also referred to as the "Core Services" are set forth in Exhibit A hereto.

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1.5 "DIRECT DEALS/OPT-IN" means promotional Email messages, sent directly into the End-Users Emailboxes of those End Users who have opted to receive such messages to their in-box.

1.6 "END-USERS" means Go2Net's end-users, which shall include any user of the products or services offered hereby generated through any of Go2Net's properties in the narrowband and broadband environments (including cable subscribers of Charter Communications and its affiliates, users of services offered by High Speed Access Corp. and any browser, website, ISP, DSL provider or similar service that Go2Net sponsors or provides content to).

1.7 "HOUSE ADVERTISEMENTS" means advertising banners and other advertising promoting the Custom Mail Services and Premium Services of CommTouch and the Business Partner and/or their affiliates.

1.8 "LINKS" means hyper-text Internet Links.

1.9 "NET ADVERTISING REVENUE" means gross revenue received by the Business Partner for Advertisements less agency fees and third-party sales commissions. Such fees and commissions shall at no time exceed, in the aggregate, twenty percent (20%) of Net Advertising Revenue. House Advertisements, to the extent permitted by this Agreement, shall not be included in the Net Advertising Revenue.

1.10 "PREMIUM SERVICES" means email and other communication products or related services as defined in Exhibit B.

1.11 "USER DATA" means the demographic information, names and email addresses of the End-Users.

2. CUSTOM EMAIL SERVICES PROVIDED TO BUSINESS PARTNER.

2.1 CUSTOM EMAIL SERVICES. CommTouch will provide to End Users a private label email service (which will include CommTouch's calendaring (ProntoMail), ZapZone network (ZZN) and the small offices solution (BizToGo), including upgrades to the foregoing products and services as they become available and new products as they become available to CommTouch's email and calendaring customers (the "COMMTOUCH FEATURES")) customized to the look and feel of the Business Partner's Websites according to the CommTouch customization guidelines. CommTouch provides a proprietary customization tool (attached as Exhibit E) to all of its partners so that they can quickly and easily customize the email service to the look and feel of their websites. The services will use the domain name or names designated by Go2Net in its discretion (e.g., names using or suggesting one or more of Go2Net's brands, such as Go2Net, Metacrawler, Hypermart, Virtual Avenue, Silicon Investor or Playsite ("GO2NET DOMAIN BRANDS")) but limited to (i) 50 domain names of websites that may be individually customized ("PRIMARY DOMAINS"), (ii) an unlimited number of domain names of websites which share the "look and feel" of one of the Primary Domains and do not require additional

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customization, and (iii) the domains set forth in Sections 2.2 and 2.3 below. CommTouch agrees to provide the Business Partner with such additional Primary Domains as the Business Partner shall request on terms reasonably agreed between the parties. Accordingly, the Business Partner at its discretion may use multiple domain names to create multiple email services for the ZZN and BizToGo services.

2.2 SUBDOMAIN SERVICES. CommTouch has developed a unique subdomain email service (marketed under the "ZAPZONE NETWORK" brand). CommTouch will private label this subdomain email service (including all of the CommTouch Features contained therein) to Hypermart and Virtual Avenue and any other web hosting service owned by the Business Partner in a way that will enable any member of such service or services to offer its web-based email service together with the virtual site they offer; for example, `username@snowboarder.hypermart.com`. The site will carry the "Powered by ZapZone" logo.

2.3 EMAIL SERVICES TO SMALL BUSINESSES. CommTouch has developed full email services for businesses and corporations (marketed under the "BizToGo" brand) using such parties' domain names and providing to them, inter alia, full featured email services including online central administration tools. CommTouch will private label this service to the Business Partner using one or more of the Business Partner's current or future domains as designated by the Business Partner.

2.4 LAUNCH. Both parties shall use commercially reasonable best efforts to launch the Custom Mail Services as soon as practicable.

2.5 LANGUAGE SUPPORT. The Custom Mail Services user interface will be implemented in any of the 14 languages currently supported by CommTouch, as well as any new languages supported by CommTouch in the future, as requested by the Business Partner.

2.6 CUSTOMIZATION. The Customization procedure is as follows:

(a) Upon receipt of the signed agreement, CommTouch shall provide the Business Partner with the CommTouch Customization Tool.

(b) The Business Partner shall create a Customized Template and notify the CommTouch Product manager within seven days from receipt of the tool.

(c) The CommTouch Product Manager shall provide the Business Partner with feedback relating to the customized template within seven days from receipt of the template.

(d) The Business Partner shall make necessary corrections and changes and notify the CommTouch Product Manager within three days from the receipt of the feedback.

(e) The CommTouch Product Manager shall either launch the site within seven days or provide the Business Partner with further feedback.

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(f) The parties will continue the process described in Sections 2.6(d) and (e) until the customization is complete.

2.7 RE-DESIGN. Once per calendar quarter Business Partner will have the right to re-design the user interface of the Custom Mail Services by using CommTouch's standard online site design tools and in accordance with the instructions set out within it at no cost to the Business Partner

2.8 LIST-SERVE OPTION. The Business Partner may send email messages and promotions directly to the End-Users of the Custom Mail Services utilizing the tool proposed at <http://www.mailtarget.com> and CommTouch will assist the Business Partner with such target advertising upon request. CommTouch shall provide this service to the Business Partner at no additional cost if revenues are generated from the List-Serve service. If no revenues are generated, the Business Partner shall pay a service fee as set forth on the attached Exhibit F.

2.9 PREMIUM SERVICES. Business Partner shall have the right to promote, offer and sell to End-Users the Premium Services. Revenue from such Premium Services, will be shared by CommTouch and the Business Partner as set below. In order to promote Premium Services to End-Users and any other persons, the Business Partner will have the right to send periodic direct email promotion to End-Users' email addresses. CommTouch will, subject to the Business Partner's prior written approval, also have the right to promote, offer and sell to End-Users other Premium Services that it may develop and offer from time to time. The Business Partner will have the right to select the Premium Services offered to End-Users and to designate the third parties who provide the Premium Services offered by CommTouch to the End-Users, provided such third parties' products are email compatible and provided that if additional costs are incurred by CommTouch in switching to such third parties, CommTouch and the Business Partner shall negotiate in good faith an allocation of such costs.

2.10 DIRECT DEALS/OPT-IN. CommTouch shall provide End-Users of the Custom Mail Services with the ability to request the delivery of promotional email messages directly to their email inbox, to the extent that the Business Partner desires CommTouch to provide this service. The Business Partner shall decide at its discretion which vendors may sell through this service. For End-Users who have selected this option, CommTouch shall have the right to contact said End-User by email and to offer said End-Users products and services approved by the Business Partner.

3. OPERATION AND PROMOTION OF THE CUSTOM MAIL SERVICES.

3.1 HOSTING OF CUSTOM MAIL SERVICES; SERVING OF ADVERTISEMENTS.

(a) CommTouch shall host the Custom Mail Services and shall bear the costs of hosting the Custom Mail Services.

(b) The Business Partner shall deliver or cause to be delivered all Advertisements to or through the Custom Mail Services, except where this right and obligation is

specifically conferred upon CommTouch below. The Business Partner shall bear the costs of delivering the Advertisements. CommTouch shall cooperate with the Business Partner to integrate the Business Partner's advertisement serving software.

3.2 LINKS. The Business Partner shall place and maintain during the term of this Agreement, Links to the Custom Mail Services on prominent places on the Business Partner Web Site's home page and at least five other frequently visited sections of the Business Partner Web Site as well as the "powered by CommTouch" sign on the Email site.

3.3 PROMOTION. The Business Partner shall, during the term of this Agreement, actively promote the Custom Mail Services on the Business Partner Web Sites in order to attract End-Users to register to the Custom Mail Services. The Business Partner shall mention CommTouch and the Custom Mail Services in any major advertising or promotional campaigns with respect to the Business Partner's on-line email services and both parties shall have the right to mention each other in press releases (subject to prior written approval of the other party of all material relating to such party other than pre-approved "boilerplate") and "boilerplate" credits in any press releases relating to the parties' Web Site's services. Such "boilerplate" language shall not include the Business Partner's stock symbol and shall have been previously reviewed and approved by the Business Partner, and once so approved, may be utilized without further approval from the Business Partner, unless the language is amended. The Business Partner will have the right to control in its sole discretion all aspects of marketing and promotion in the products and services offered by it. The Business Partner will have the right to control in its sole discretion the content of the information provided via the "Direct Deal/Opt-In" services to End Users.

3.4 MAINTENANCE OF SYSTEMS; CUSTOMER SUPPORT; SERVICE UPGRADES. The detailed terms of maintenance, service, support and system performance are laid out in Exhibit C. CommTouch shall use commercially reasonable efforts to maintain or cause to be maintained the hardware, software and systems required for the hosting and operation of the Custom Mail Services.

3.5 CUSTOMER SUPPORT. CommTouch shall provide customer support through English-language email to End-Users on a 24 hours per day, 365 days per year basis.

3.6 SERVICE UPGRADES. CommTouch will periodically upgrade the Custom Mail Services and calendaring service. CommTouch will promptly notify the Business Partner of such upgrades and the Business Partner shall be entitled to require its site to be upgraded from time to time. All such requests shall be made in writing and CommTouch's approval shall not be unreasonably withheld.

4. REVENUES FROM ADVERTISEMENTS

4.1 SALE OF ADVERTISING AND SPONSORSHIPS BY THE BUSINESS PARTNER. The Business Partner shall use commercially reasonable efforts to market and sell Advertisements for the Custom Mail Services. "Advertisements" means advertising banners, sponsorships and other advertising displayed on Custom Mail Services pages including login and signup pages whether

hosted by CommTouch or the Business Partner. CommTouch shall have no responsibility to sell or market Advertisements, except as specifically provided below. The Business Partner shall deliver or cause to be delivered all Advertisements to or through the Custom Mail Services, except where this right and obligation is specifically conferred upon CommTouch below. The Business Partner shall bear the costs of delivering the Advertisements.

4.2 NET ADVERTISING REVENUES GENERATED FROM THE CUSTOM MAIL SERVICES. All Net Advertising Revenues generated from email, calendaring or other services provided by CommTouch for the Business Partner's users will be divided as follows: the first 20% will be allocated to the Business Partner to cover sales costs, the remaining 80% will be split 70% for the Business Partner and 30% for CommTouch. All revenues generated from upgrades to email, calendaring and other services provided by CommTouch for the Business Partner's users will be split 50%/50%.

4.3 HOUSE ADVERTISEMENTS. CommTouch shall be permitted, at no cost, to place House Advertisements on the Custom Mail Service promoting the Business Partner's email and calendaring services and upgrades, provided that such advertisements do not exceed five percent (5%) of the total Advertisement Inventory in any calendar quarter.

4.4 MINIMUM ADVERTISING SALES. If the Business Partner sells less than 25% of the Total Banner Advertisement Inventory during any month, CommTouch shall, during the succeeding month, be allowed to sell banner advertisements on pages related to the Custom Mail Service within the email interface(s) up to the difference between 25% and the actual percentage sold by the Business Partner in the previous month. "Total Banner Advertisement Inventory" means the aggregate banner advertising availability on all email pages of the Custom Mail Services viewed by End-Users during a month (including advertising availability filled with House Advertisements, as defined below). In the event that CommTouch sells Advertisements, CommTouch shall pay to the Business Partner fifty percent (50%) of Net Advertising Revenue derived therefrom.

5. REVENUES FROM PREMIUM SERVICES

CommTouch shall pay to Business Partner fifty percent (50%) of the Premium Service revenues collected by CommTouch, net of agency fees and third-party sales commissions (not to exceed 20%) and net of actual payments (without mark-up) to third parties for direct costs of providing said Premium Services.

6. REVENUES FROM DIRECT DEALS/OPT-IN.

Revenue generated by, and collected from, Direct Deals/Opt-in will be divided as follows: the first 20% will be allocated to the Business Partner to cover sales costs, the remaining 80% will be split 70% for the Business Partner and 30% for CommTouch.

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7. PAYMENTS AND REPORTS.

7.1 Within twenty (20) days after the last day of each calendar quarter during the term of this Agreement, the Business Partner shall provide CommTouch with a written report setting forth (i) the Custom Mail Services Net Advertising Revenue generated by the Business Partner during such quarter, and (ii) the Custom Mail Services gross Advertising Revenue generated by the Business Partner during the quarter.

7.1.1 Within thirty (30) days after the last day of each calendar quarter during the term of his Agreement, CommTouch shall provide Business Partner with a written report setting forth the Premium Service revenue and Direct Deals revenue collected by CommTouch during such quarter, if any. Such statements shall be accompanied by a payment in full of the amounts specified in Section 6 above. In the event that CommTouch sells advertisement as specified in Section 4.4, CommTouch shall provide Business Partner with quarterly reports setting forth (i) the Custom Mail Services Net Advertising Revenue generated by CommTouch during such quarter, and (ii) the Custom Mail Services gross Advertising Revenue generated by CommTouch during the quarter.

7.2 AUDIT OF REPORTS. Each party will maintain complete and accurate books and records sufficient to prepare accurate reports as required by Section 7.1. CommTouch and the Business Partner each shall have the right to cause such books and records to be audited by an independent certified public accountant selected by the requesting party. Any such audit shall be performed on seven (7) days written notice, at the expense of the requesting party, during normal

business hours, no more frequently than once in a twelve-month period, and in such a manner as to avoid unreasonable interference with normal business operations, provided, however, that if any such examination reveals an underpayment to the requesting party of more than five percent (5%) of the total payment due for any quarter, then the examined party shall pay the costs of such examination. Both parties agree to abide by such auditor's determination.

7.3 TAXES. Each party will be solely responsible for all taxes for which it is liable. Neither party will be responsible for any tax liability of the other party.

8. OWNERSHIP OF INTELLECTUAL PROPERTY; LICENSES.

8.1 BUSINESS PARTNER OWNERSHIP. The Business Partner shall own and retain all right, title and interest in and to the Artwork, the Business Partner Web Site and the domain names and URLs for the Custom Mail Services and the User Data.

8.2 COMMTOUCH OWNERSHIP. As between the parties, CommTouch shall own and retain all right, title and interest in and to the Custom Mail Services and Premium Services. The provisions of this Section are subject to the rights of the Business Partner set forth in Section 2 and the licenses covering the Custom Mail Services and the Premium Services granted to the Business Partner under this Agreement.

8.3 LICENSE TO THE BUSINESS PARTNER. Subject to all of the terms and conditions of this Agreement, CommTouch hereby grants to the Business Partner a nonexclusive,

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nontransferable, limited license to provide the End-Users with access to the Custom Mail Services by means of the Links. The access of End-Users to the Custom Mail Services shall be subject to the terms of an end-user license provided by CommTouch in the form attached as Exhibit D. The Business Partner shall not remove or alter any such end-user license or other notices relating to CommTouch's limitation of its liability and waiver of warranties that are generated during access or use of the Custom Mail Services.

8.4 RIGHT TO COMMTOUCH. The Business Partner hereby grants to CommTouch a nonexclusive, nontransferable limited right during the term of this Agreement (a) to use the Artwork for the purpose of designing, developing and operating the Custom Mail Services, and (b) to use the domain names and URLs provided by the Business Partner to CommTouch pursuant to the Custom Mail Services Agreement executed between the parties. In addition, the Business Partner hereby grants to CommTouch a nonexclusive, non-transferable, limited license and right during the term of this Agreement to use aggregate information based upon User Data, without identifying any such End User or the Business Partner or any other entity providing services to the End User, solely in connection with the marketing of its services to potential business partners of CommTouch.

8.5 RESERVATION OF RIGHTS. As between the parties, any rights to the Custom Mail Services and the Premium Services not expressly granted hereunder to the Business Partner are reserved to CommTouch, and any rights to the Artwork, the domain names and URLs and the User Data not expressly granted hereunder to CommTouch are reserved to the Business Partner.

9. CONFIDENTIALITY.

Each party shall be entitled to disclose the existence of this Agreement, but agrees that the financial terms of this Agreement and other proprietary information shared between the parties shall be treated as confidential and shall not be disclosed to any other party; provided, however, that each party may disclose the financial terms of this Agreement (a) as required by a court or other governmental body, or as otherwise required by law, (b) in confidence, to its legal counsel, accountants, banks, and current and prospective financing sources and their advisors, or in connection with an actual or proposed merger or acquisition, or (c) in connection with the enforcement of its rights under this Agreement.

10. COVENANTS, REPRESENTATIONS AND WARRANTIES.

10.1 At the closing of an initial public offering of the ordinary shares CommTouch Software Ltd., [an Israeli company and the sole owner of CommTouch], with gross proceeds of at least \$40,000,000 and a price to the public of at least \$15 per share (the "IPO"), shall grant to the Business Partner a warrant in substantially the form attached as Exhibit G to purchase 1,136,000 shares of CommTouch's ordinary shares at a per share purchase price of \$12.80 (the "Warrant") as an inducement to enter into this Agreement.

10.2 CommTouch and the Business Partner each represent and warrant to the other party that:

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(a) it is an entity duly organized, validly existing and in good standing in the jurisdiction of its formation;

(b) it has full authority to enter into this Agreement, to grant the rights granted herein, and to perform the obligations assumed hereunder;

(c) the execution and delivery of this Agreement by it does not conflict with any other agreement to which it is a party or by which any of its property is bound; and

(d) this Agreement, when executed by both parties, represents its valid and binding obligation, enforceable against it in accordance with its terms, subject to certain general legal enforceability exceptions.

10.3 REPRESENTATIONS TO END USERS. The Business Partner shall not make any representations or warranties concerning the Custom Mail Services beyond those expressly made in writing by CommTouch and known to the Business Partner, and shall not knowingly and willfully misrepresent the Custom Mail Services or the performance or functionality thereof.

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11. LIMITATIONS.

11.1 LIMITED WARRANTY BY COMMTOUCH. Pursuant to the end-user license to be distributed to End-Users, CommTouch makes a limited warranty to the End-Users. EXCEPT FOR THE FOREGOING WARRANTIES, COMMTOUCH MAKES NO OTHER WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO ANY SERVICES PROVIDED UNDER THIS AGREEMENT, AND COMMTOUCH SPECIFICALLY DISCLAIMS ALL OTHER WARRANTIES OR CONDITIONS REGARDING ANY SERVICES PROVIDED UNDER THIS AGREEMENT, INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE.

11.2 LIMITATION OF LIABILITY. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL, OR INDIRECT DAMAGES, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY, ARISING OUT OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY IS ADVISED

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OF THE POSSIBILITY OF SUCH DAMAGES, AND NOT WITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY.

12. TERM AND TERMINATION.

12.1 TERM. The term of this Agreement shall commence on the date of the launch of the first of the Go2Net custom email service and shall continue

until the third anniversary of the Launch Date, unless earlier terminated as provided below. Notwithstanding the foregoing, the Business Partner may terminate this Agreement on each anniversary of the Effective Date upon sixty (60) days prior written notice. This Agreement will be automatically renewed on the third anniversary of the Launch Date for a period of one year, and renewed annually for one year thereafter, unless terminated by business partner in writing sixty (60) days prior to the end of the term.

12.2 TERMINATION. This Agreement may be terminated:

(a) by either party upon a material breach by the other party of any representation, covenant, warranty or term of this Agreement that is not cured within thirty (30) days after written notice thereof by the non-breaching party; provided that the cure period provided in this Section shall be fifteen (15) days after written notice thereof by the non-breaching party in the event of a breach of an obligation to make a payment as and when required by this Agreement;

(b) by the Business Partner if ** exceeds either (a) ** consecutive days or (b) ** in the aggregate of the total time over any ** consecutive days (in the event the Business Partner is entitled but does not elect to terminate the Agreement under this section 12.2(b), the ratable portion of all revenues attributable to such down time period shall be allocated **;

(c) The Business Partner may terminate this Agreement if CommTouch has not launched the Custom Mail Services within 30 days unless such failure is due to delays caused by the Business Partner; or

(d) by either party in the event that (i) the other party files a petition for bankruptcy or is adjudicated a bankrupt, (ii) a petition in bankruptcy is filed against the other party and such petition is not discharged within 90 days, (iii) the other party becomes insolvent or makes an assignment for the benefit of its creditors or an arrangement for its creditors pursuant to any bankruptcy law, (iv) an action is instituted by or against the other party seeking its dissolution or liquidation of such party's assets or seeking the appointment of a trustee, interim trustee, receiver or other custodian for such party's property or business and such action is not dismissed within ninety (90) days after the date upon which it was instituted; or (v) a receiver is appointed for the other party or its business.

12.3 EFFECT OF TERMINATION. Upon termination of this Agreement, the Business Partner shall remove the Links and otherwise discontinue use of the Custom Mail

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Services on the Business Partner Web Site. However, CommTouch shall continue to be entitled to receive, and the Business Partner shall continue to pay to CommTouch, the amounts owing to CommTouch up to the date of termination pursuant to this Agreement, and the Business Partner shall continue to be entitled to receive, and CommTouch shall continue to pay to the Business Partner, the amounts owing to it up to the date of termination pursuant to this Agreement. Termination of this Agreement shall not act as a waiver of any breach of this Agreement or as a release of either party from any liability for breach of such party's obligations under this Agreement.

12.4 SURVIVAL. The provisions of Sections 7.3, 8, 9, 10, 11, 12, 13 and 14 of this Agreement shall survive any expiration or termination of this Agreement.

13. INDEMNIFICATION.

13.1 INDEMNIFICATION BY THE BUSINESS PARTNER. The Business Partner will defend, indemnify and hold harmless CommTouch, its successors, assigns, parent, subsidiaries, affiliates, and their respective officers, directors, agents and employees, from and against any action, suit or claim (including reasonable attorneys' fees) arising out of or in any way connected with (a) the Artwork, including any claim that the Artwork, or any part thereof, infringes any intellectual property rights or other rights of any third party, (b) the Advertisements or ad copy provided by the Business Partner, (c) the domain names

and URLs provided to CommTouch, and (d) any breach by the Business Partner of the covenants, warranties, representations or agreements of this Agreement. CommTouch will give the Business Partner prompt notice of any such claim or threatened claim.

13.2 INDEMNIFICATION BY COMMTOUCH. CommTouch will defend, indemnify and hold harmless the Business Partner, its successors, assigns, parent, subsidiaries, affiliates, and their respective officers, directors, agents and employees, from and against any action, suit or claim (including reasonable attorneys' fees) arising out of or in any way connected with (a) any claim that the Custom Mail Services, or any part thereof, infringes any intellectual property rights or other rights of any third party, except to the extent that such claim arises out of the inclusion in the Custom Mail Services of the Artwork, (b) the Advertisements or ad copy provided by CommTouch, (c) any breach by CommTouch of the covenants, warranties, representations or agreements of this Agreement, and (d) claims of End-Users alleging damage due to any failure of the Custom Mail Services. The Business Partner will give CommTouch prompt notice of any such claim or threatened claim.

13.3 PROCEDURE. The indemnified party will: (a) promptly notify in writing the indemnifying party of any claim, suit or proceeding for which defense or indemnity is claimed; (b) cooperate reasonably with the indemnifying party at the latter's expense; and (c) allow the indemnifying party to control the defense or settlement thereof; provided, however, that the indemnifying party may not consent to entry of any judgment or enter into any settlement without the prior written consent of the indemnified party (which consent shall not be unreasonably withheld or delayed), unless such judgment or settlement provides solely for money damages or other money payments which the indemnifying party actually pays on behalf of the indemnified party and includes as an unconditional term thereof a release of the

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indemnified party from all liability in respect of the claim, suit or proceeding giving rise to the claim for indemnification. The indemnified party will have the right to participate in any defense of a claim and/or to be represented by counsel of its own choosing at its own expense.

14. GENERAL PROVISIONS.

14.1 GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the State of Delaware and the United States (excluding the U.N. Convention on Contracts for the International Sale of Goods) without regard to conflict of laws principles. In any action or proceeding to enforce rights under this Agreement, the prevailing party shall be entitled to recover costs and attorneys' reasonable fees.

14.2 ASSIGNMENT. Neither party may transfer or assign its rights or delegate its obligations hereunder (whether voluntarily or by operation of law) without the prior written consent of the other party, which consent shall not be withheld or delayed unreasonably, provided that the Business Partner shall have the right to transfer this Agreement, and assign all of its rights and delegate all of its obligations hereunder, to any affiliate, and to any successor by way of merger or consolidation or in connection with the sale or transfer of substantially all of its business and assets relating to this Agreement.

14.3 NOTICES. All notices under this Agreement shall be in writing and delivered personally or by email with proof of receipt, facsimile, commercial overnight courier, or certified or registered mail, return receipt requested, to a party at its respective address set forth herein.

14.4 ENTIRE AGREEMENT. This Agreement, together with all exhibits attached to this Agreement, sets forth the entire agreement and understanding of the parties relating to the subject matter herein and merges and supersedes all prior discussions between them. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the party against whom it is to be enforced. Nothing express or implied in this Agreement is intended to confer, nor shall anything herein confer, upon any person other than the parties and the respective successors or permitted assigns of the parties, any rights, remedies,

obligations or liabilities whatsoever.

14.5 SEVERABILITY. If the application of any provision or provisions of this Agreement to any particular facts or circumstances shall be held to be invalid or unenforceable by any court of competent jurisdiction, then: (i) the validity and enforceability of such provision or provisions as applied to any other particular facts or circumstances and the validity of other provisions of this Agreement shall not in any way be affected or impaired thereby; and (ii) such provision or provisions shall be reformed without further action by the parties hereto and only to the extent necessary to make such provision or provisions valid and enforceable when applied to such particular facts and circumstances.

14.6 INDEPENDENT CONTRACTORS. The parties are independent contractors, and nothing in this Agreement shall be construed to create a joint venture or partnership.

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14.7 FORCE MAJEURE. A party will not be deemed to have materially breached this Agreement to the extent that performance of its obligations (excluding payment obligations) or attempts to cure any breach are delayed or prevented by reason of an act of God, fire, natural disaster, accident, act of government, or any other cause beyond the reasonable control of that party (a "force majeure event"); provided that the party whose performance is delayed or prevented promptly notifies the other party of the nature and duration of the force majeure event.

14.8 COMPLIANCE WITH LAWS. Each party shall comply with all laws and regulations applicable to it.

14.9 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and such counterparts together shall constitute one and the same instrument. For purposes hereof, a facsimile copy of this Agreement, including the signature pages hereto, shall be deemed to be an original.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Effective Date by the undersigned duly authorized:

GO2NET, INC.

COMMTOUCH SOFTWARE, INC.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Issued July __, 1999

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY SET FORTH HEREIN. THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. NO SALE OR DISPOSITION MAY BE EFFECTED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL FOR THE HOLDER, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED UNDER SUCH ACT OR SUCH STATE LAWS.

THIS WARRANT MAY NOT BE EXERCISED EXCEPT IN COMPLIANCE WITH ALL APPLICABLE FEDERAL AND STATE SECURITIES LAWS TO THE REASONABLE SATISFACTION OF THE COMPANY AND LEGAL COUNSEL FOR THE COMPANY.

Void after July __, 2004

COMMTOUCH SOFTWARE LTD.

WARRANT TO PURCHASE UP TO 1,136,000 ORDINARY SHARES

THIS CERTIFIES THAT, for value received, Go2Net, Inc., a Delaware corporation, or its permitted assigns, is entitled at any time prior to expiration of this Warrant to subscribe for and purchase up to 1,136,000 shares of the fully paid and nonassessable ordinary shares, nominal value NIS 0.05, of CommTouch Software Ltd., an Israeli company (the "Company"), at the price of \$12.80 per share (such price and such other price as may result, from time to time, from the adjustments specified in paragraph 4 or 5 hereof are collectively referred to herein as the "Warrant Price"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used herein, "Shares" shall mean the ordinary shares of the Company; "Warrant Shares" shall mean the Shares issued or issuable upon exercise of the Warrants; and "Date of Grant" shall mean July __, 1999.

1. TERM.

This Warrant is exercisable, in whole or in part, at any time and from time to time on and after the Date of Grant through July __, 2004.

2. METHOD OF EXERCISE; PAYMENT; ISSUANCE OF NEW WARRANT.

(a) The purchase right represented by this Warrant may be exercised by the holder hereof, in whole or in part, by the surrender of this Warrant (with the notice of exercise form attached hereto as Exhibit A duly executed) at the principal office of the Company and (i) by the payment to the

Company, by check, of an amount equal to the then applicable Warrant Price per Share multiplied by the number of Shares then being purchased, or (ii) on or after the date on which the Shares become publicly traded or in conjunction with a Merger or Consolidation, by surrender of the right to receive upon exercise hereof a number of the Shares that have a value (as determined below) equal to the Warrant Price of the Shares with respect to which this Warrant is being exercised, in which case the number of Shares to be issued to the holder upon such exercise shall be computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where:

X = the number of Shares to be issued to the holder.

Y = the number of Shares with respect to which this Warrant is being exercised.

A = the fair market value of one Share.

B = the Warrant Price.

As used herein, "Merger or Consolidation" shall mean the merger or consolidation of the Company into or with an unaffiliated entity in which the shareholders of the Company shall own less than 50% of the voting securities of the surviving entity; or the sale, transfer or lease (but not including a transfer or lease by pledge or mortgage to a bona fide lender) of all or substantially all of the assets of the Company to an unaffiliated entity.

(b) As used herein, "fair market value of one Share" shall mean, as of any date, the value of a Share determined as follows:

(i) In conjunction with a Merger or Consolidation, the "fair market value of one Share" shall be the value received by the holders of the Shares pursuant to such transaction for each Share, and such purchase shall be effective upon the closing of such transaction, subject to the due, proper and prior surrender of this Warrant; provided, however, that should such Merger or Consolidation not be consummated, the Company shall refund to the holder the Warrant Price and the holder may exercise the purchase right represented by this Warrant, in whole or in part, at any time and from time to time during the remainder of its term.

(ii) After the initial underwritten public offering of the Shares pursuant to a registration statement filed under the Securities Act of 1933 (the "Securities Act"), fair market value of one Share shall mean (i) if the Shares are listed on a national stock exchange or the Nasdaq National Market, the average of the closing prices for the five trading days immediately prior to the date of determination, or (ii) if the Shares are not so listed, the average of the closing bid and asked prices in the over-the-counter market as furnished by a national quotation service or the principal broker making a market in the Shares for the five trading days immediately prior to the date of the determination.

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(c) In the event of any exercise of the purchase right represented by this Warrant, certificates for the Shares so purchased shall be delivered to the holder hereof within five days of the effective date of such purchase and, unless this Warrant has been fully exercised or expired, a new Warrant representing the portion of the securities, if any, with respect to which this Warrant shall not then have been exercised shall also be issued to the holder hereof within such five-day period. Upon the effective date of such purchase, the holder shall be deemed to be the holder of record of the securities, notwithstanding that certificates representing the securities shall not then be actually delivered to such holder or that such securities are not then set forth on the stock transfer books of the Company.

(d) The holder of this Warrant agrees to use commercially reasonable best efforts to exercise this Warrant in such manner as to avoid becoming, as a result of such exercise, a 10% or greater shareholder of the Company and shall reasonably cooperate with the Company so as to minimize adverse Israeli tax consequences.

3. SHARES FULLY PAID; RESERVATION OF SHARES.

All securities which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issue thereof. During the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved for the purpose of the issue upon exercise of the purchase rights evidenced by this Warrant, a sufficient number of Shares to provide for the exercise of the rights represented by this Warrant.

4. ANTI-DILUTION.

The maximum number of Warrant Shares issuable upon exercise of this Warrant and the Warrant Price shall be adjusted if any of the following events occur before the holder's exercise of this Warrant:

(a) Shares, Convertible Securities, Options and Rights. If at any time the Company shall issue or sell any Shares or any rights, options, warrants or other securities (other than option granted and Shares issued to employees, officers, directors or consultants of the Company, in each case pursuant to any compensatory or stock option plan approved by the shareholders of the Company ("Employee Options")) entitling the holders thereof to purchase Shares or convert such securities into Shares at a price per Share, determined by dividing:

(i) the total amount, if any, received or receivable by the Company in consideration of the issuance or sale of such rights, options, warrants or other securities plus the total amount if any, payable to the Company upon exercise or conversion thereof (the "Total Consideration") by

(ii) the number of additional Shares issuable upon exercise or conversion of such securities,

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which is less than the Warrant Price in effect on the date of such issuance or sale, the Warrant Price shall be adjusted as of the date of such issuance or sale so that the same shall equal the price determined by dividing:

(i) the sum of (A) the number of Shares outstanding (on a fully diluted basis) on the date of such issuance or sale multiplied by the Warrant Price in effect immediately prior thereto plus (B) the Total Consideration by

(ii) the number of Shares outstanding (on a fully diluted basis) on the date of such issuance or sale plus the maximum number of additional Shares issuable upon exercise or conversion of such securities.

Simultaneously with all adjustments to the number and/or kind of securities, property and cash to be issued in connection with any such issuance, sale or conversion, the Warrant Price will also be appropriately adjusted so that at all times the holder hereof will not pay more than the aggregate purchase price to exercise this Warrant in full immediately after such adjustment as such holder would have had to pay immediately prior to such adjustment.

(b) Distributions, Share Dividends and Splits.

(i) In case the Company declares a dividend or other distribution payable in Shares or subdivides its Shares into a greater number of Shares, the Warrant Price in effect immediately prior to such declaration or subdivision shall be proportionately decreased and the number and kind of Shares purchasable upon exercise of this Warrant shall be adjusted so that the holder thereof shall be entitled to receive the kind and number of shares or the other securities of the Company that the holder would have owned or have been entitled to receive after the happening of any of the events described in this paragraph (b)(i) had the Warrant Shares been issued immediately prior to the happening of such event or any record date with respect thereto.

(ii) In case the Company shall distribute to the holders of Shares (A) securities, (B) property, other than cash, or (C) cash, without fair payment therefor, then, and in each such case, the holder upon exercise hereof shall be entitled to receive such securities, property and cash which such holder would have received had such holder been the holder of record of the Shares as of the record date for any such distribution, subject, however, to such holder agreeing to any conditions to such distribution as were required of all other holders of Shares in connection with such distribution.

(iii) If the securities to be distributed by the Company to persons other than the holder of this Warrant involve rights, warrants, options, or any other form of convertible securities and the right to exercise or convert such securities would expire in accordance with its terms prior to the exercise of this Warrant, and without the exchange of any such rights, warrants or options, then the terms of such securities shall provide that such exercise or

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convertibility shall remain in effect until 30 days after the date the holder of this Warrant becomes a holder of Shares pursuant to the exercise hereof.

(iv) An adjustment made pursuant to this paragraph (b) shall become effective immediately after the record date in the case of a dividend or distribution and shall become immediately effective after the effective date in the case of a subdivision, combination or issuance. If, as a result of an adjustment made pursuant to this paragraph (b), the holder after exercise shall become entitled to receive shares of two or more classes of capital stock or Shares and any other class of capital stock of the Company, the Board of Directors of the Company (whose determination shall be conclusive and shall be described in a written notice to the holder promptly after such adjustment) shall determine the allocation of the adjusted Warrant Price between or among shares of such classes of capital stock or Shares and such other classes of capital stock.

(c) Consideration. In case the Company shall issue its Shares for a consideration wholly or partly other than cash, the amount of the consideration other than cash received by the Company shall be deemed to be the lesser of (i) the fair market value on the issue date of the Shares so issued by the Company, as determined in good faith by the Board of Directors of the Company, less any cash consideration, or (ii) the fair market value of such consideration as determined in good faith by the Board of Directors of the Company.

(d) Record Date. In case the Company shall take a record of the holders of its Shares for the purpose of determining holders entitled (i) to receive a dividend or other distribution payable in Shares, or (ii) to subscribe for or purchase Shares, then such record date shall be considered to be the date of the issue or sale of the Shares related to such dividend or distribution or the date as of which such Shares are deemed to have been issued upon the granting of such right of subscription or purchase.

(e) Stock Combinations. In case the Company shall combine all of the outstanding Shares into a smaller number of Shares, the Warrant Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares shall be proportionately decreased.

(f) Reorganizations. If any reorganization or reclassification of the capital stock of the Company shall be effected, or if the Company shall merge with another entity or shall sell all or substantially all of its assets, then, as a condition of such reorganization, reclassification, merger or sale, lawful and adequate provision shall be made whereby each holder of this Warrant shall thereafter have the right to receive upon exercise of this Warrant such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding Shares equal to the number of Shares immediately theretofore issuable upon exercise of this Warrant had such reorganization, reclassification, merger or sale not taken place; and in any such case appropriate provisions shall be made with respect to the rights and interests of each holder of this Warrant to the end that the provisions hereof (including without limitation provisions for adjustment of the Warrant Price and of the number of Shares issuable upon exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter

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deliverable upon the exercise hereof. The Company shall not effect any such reorganization, reclassification, merger or sale unless prior to or simultaneously with the consummation thereof the successor Company (if other than the Company) resulting from such consolidation or merger or the Company purchasing such assets shall assume by a written instrument executed and mailed by registered mail, postage prepaid, or delivered to each registered holder of this Warrant at the last address of such holder appearing on the Company's records the obligation of the Company to deliver to such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to upon exercise of this Warrant. The provisions of this paragraph (f) shall similarly apply to successive transactions of the types described herein.

(g) Notice of Adjustment. Upon each adjustment of the Warrant Price, the Company shall give prompt written notice thereof addressed to each registered holder at the address of such holder as shown on the Company's records, which notice shall state the Warrant Price resulting from such adjustment and the increase or decrease, if any, in the number of Warrant Shares issuable upon exercise hereof, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

(h) Fractional Shares. No fractional Warrant Shares shall be issued upon the exercise hereof. Upon exercise by any holder, such holder shall be entitled to receive the aggregate full number of Shares which the holder may receive upon exercise and in lieu of any fractional Share otherwise issuable, an amount equal to such fractional Warrant Share multiplied by the then fair market value of one Share shall be paid by the Company in cash to such holder.

(i) Notice of Capital Changes. If at any time:

- (i) the Company shall declare any dividend or distribution (other than a cash dividend) payable to the holders of its Shares;
- (ii) the Company shall offer for subscription pro rata to the holders of Shares any additional shares of stock of any class or other rights;
- (iii) there shall be any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another Company or business organization;
- (iv) there shall be any issuance of securities convertible into, or rights or warrants to purchase, securities of the Company (other than Employee Options); or
- (v) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

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then, in any one or more of such cases, the Company shall give the holder written notice by registered mail, postage prepaid, of the date on which a record shall be taken for such dividend, distribution or subscription rights or for determining shareholders entitled to vote upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up and of the date when any such transaction shall take place, as the case may be. Such notice shall also specify the date as of which the holder may exercise this Warrant such that the Warrant Shares of record shall participate in such dividend, distribution or subscription rights, or shall be entitled to exchange the Warrant Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding up, as the case may be. Such written notice shall be given at least 15 days prior to the transaction in question and not less than 10 days prior to the record date in respect thereto.

The adjustment to the number of Shares issuable upon the exercise hereof and the adjustments to the Warrant Price described in this Section 4 shall be made each time any event listed in this Section 4 occurs. The Warrant Price may also be adjusted pursuant to Section 5(f).

If the Company takes any action affecting its Shares after the date hereof that would be covered by this Section 4 but for the manner in which such action is taken or structured, other than an action described in this Section 4, which would in any way diminish the value of this Warrant or the Warrant Shares, then there shall be an adjustment as to the Shares purchasable therefor and the Warrant Price payable thereunder in such manner as the Board of Directors of the Company shall in good faith determine to be equitable under the circumstances.

5. COMPLIANCE WITH SECURITIES ACT; RESTRICTIONS ON TRANSFER.

(a) Compliance with Securities Act. The holder of this Warrant, by acceptance hereof, agrees that this Warrant and the Shares to be issued upon exercise of this Warrant are being acquired for investment and that it will not offer, sell or otherwise dispose of this Warrant or any Shares purchasable upon exercise of this Warrant except under circumstances which will not result in a violation of the Securities Act. Upon exercise of this Warrant, the holder hereof shall confirm in writing, in a form of Exhibit B, that the securities so purchased are being acquired for investment and not with a view toward distribution or resale. In addition, the holder shall provide such additional information regarding such holder's financial and investment background as the Company may reasonably request. This Warrant and all Shares issued upon exercise of this Warrant (unless registered under the Securities Act) shall be stamped or imprinted with a legend in substantially the following form:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. NO SALE OR DISPOSITION MAY BE EFFECTED WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMPANY AND WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL FOR THE HOLDER, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED UNDER SUCH ACT.

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By accepting this Warrant, the holder makes the representations and warranties set forth on Exhibit C attached hereto.

(b) Restriction on Transfer of Warrant and Warrant Shares.

(i) This Warrant and the Warrant Shares are subject to an agreement by which the holder agrees not to transfer any ordinary shares of the Company held by it for a period of 180 days from the date of the Warrant.

(ii) This Warrant shall be registered on the books of the Company which shall be kept for that purpose, and shall be transferable in whole or in part on such books by the holder in person or by duly authorized attorney, and only in compliance with paragraph (iii) below.

(iii) Notwithstanding subsection (i) above, the holder may transfer this Warrant to (a) any person or persons who are successors in interest to substantially all the business or assets of the holder and (b) any person which owns 10% or more of the outstanding voting securities of the holder and is either a qualified institutional buyer as defined in SEC Rule 144A or an accredited investor as defined in SEC Rule 501. Upon surrender of this Warrant to the Company by the holder, the Company shall, within ten (10) business days thereafter, issue to the transferee or transferees one or more new Warrants (containing the same terms and conditions as this Warrant) evidencing the transferee(s) right or rights to subscribe for all or part of the Warrant Shares. In the event of any such transfer, the transferee(s) shall be subject to the terms of such Warrant to the same effect as was the original holder.

(c) Stop-Transfer Notices. In order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(d) Refusal to Transfer. The Company shall not be required (i) to transfer on its books the Warrant or any securities that have been sold or otherwise transferred in violation of any of the provisions of this Warrant or (ii) to treat as owner of such securities or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

(e) Inspection. The Company shall permit the holder of this Warrant, at the holder's expense, to examine the Company's books of account and records and to discuss the Company's affairs, finances and accounts with its officers, all at such reasonable times as may be requested by the holder, provided, however, that the Company shall not be obligated to provide access to any information which it reasonably considers to be trade secret or similar confidential information.,

(f) Registration Rights; Price Adjustment. This Warrant is subject to a separate Registration Rights Agreement dated the date hereof by which the Company has agreed to file, as soon as practicable and in no event later than 180 days from the date hereof, a registration statement with respect to the Warrant, the Warrant Shares and the Shares acquired by Go2Net, Inc. and Vulcan Ventures

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Incorporated under a Share Purchase Agreement dated the date hereof with the Company. If the registration statement is not effective on or before 180 days following the Date of Grant, the Warrant Price shall be reduced from \$12.80 to \$10.51, subject to any adjustments under Section 4.

6. RIGHTS OF SHAREHOLDERS.

No holder of the Warrant or Warrants shall be entitled to vote or receive dividends or be deemed the holder of Shares, nor shall anything contained herein be construed to confer upon the holder of this Warrant, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value or change of stock to no par value, consolidation, merger, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends until the Warrant or Warrants shall have been exercised and the Shares shall have become deliverable, as provided herein.

7. GOVERNING LAW.

The terms and conditions of this Warrant shall be governed by and construed in accordance with the laws of the State of Delaware.

8. MISCELLANEOUS.

The headings in this Warrant are for purposes of convenience and reference only, and shall not be deemed to constitute a part hereof. Neither this Warrant nor any term hereof may be changed, waived, discharged or terminated orally but only by an instrument in writing signed by the Company and the registered holder hereof. All notices and other communications from the Company to the holder of this Warrant shall be mailed by first-class registered or certified mail or recognized commercial courier service, postage prepaid, to the address furnished to the Company in writing by the last holder of this Warrant who shall have furnished an address to the Company in writing.

July __, 1999

COMMTOUCH SOFTWARE LTD.

Gideon Mantel, Chief Executive Officer

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EXHIBIT A
NOTICE OF EXERCISE

TO: COMMTOUCH SOFTWARE LTD.

1. The undersigned hereby elects to purchase _____ Shares of CommTouch Software Ltd. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of such Shares in full, together with all applicable transfer taxes, if any.

2. Please issue a certificate or certificates representing said Shares in the name of the undersigned or in such other name as is specified below:

(Name)

(Address)

3. The undersigned has reviewed, signed and enclosed an Investment Representation Statement in the form attached as Exhibit B to the Warrant.

Name of Warrantholder

Signature of Authorized Signatory

Print Name and Title

Date

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EXHIBIT B
INVESTMENT REPRESENTATION STATEMENT

PURCHASER:

COMPANY: COMMTOUCH SOFTWARE LTD.

SECURITY: ORDINARY SHARES

AMOUNT:

DATE:

In connection with the purchase of the above-listed securities (the "SECURITIES"), the undersigned, the Purchaser, represents to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended ("SECURITIES ACT").

(b) I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein. In this connection, I understand that, in the view of the Securities and Exchange Commission ("SEC"), the statutory basis for such exemption may be unavailable if my representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) I further understand that the Securities must be held

indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. Moreover, I understand that the Company is under no obligation to register the Securities except as set forth in the Registration Rights Agreement. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

(d) I am aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities"

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acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions.

(e) I further understand that at the time I wish to sell the Securities there may be no public market upon which to make such a sale.

(f) I further understand that in the event all of the requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Name of Purchaser

Signature of Authorized Signatory

Print Name and Title

Date

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EXHIBIT C TO
COMMTOUCH SOFTWARE LTD. WARRANT TO PURCHASE UP TO 1,136,000 ORDINARY SHARES
REPRESENTATIONS AND WARRANTIES OF THE INITIAL HOLDER.

Go2Net as the initial holder of the Warrant makes the following representations and warranties with respect to this Warrant:

(a) INVESTMENT INTENT. The holder hereby represents and warrants to the Company that it is a "qualified institutional buyer" as defined in SEC Rule 144A, because in the aggregate it owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with it; for purposes of this representation, securities shall exclude bank deposit notes and certificates of deposits; loan participations; repurchase agreements; securities owned but subject to a repurchase agreement; and currency; interest rate and commodity swaps.

(b) AUTHORIZATION. The holder hereby represents that its acceptance of this Warrant has been authorized on its behalf by all appropriate limited liability company, corporate or partnership action.

(c) ENFORCEABILITY. The holder hereby represents that it has full legal power to accept this Warrant and that its acceptance of this Warrant will result in legally binding obligations of the holder enforceable against it in accordance with the terms and provisions hereof except (i) as

limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) to the extent of any indemnification provisions contained in any applicable Registration Rights Agreement may be limited by applicable federal or state securities laws.

(d) EXEMPTION. The holder understands and has been advised by legal counsel of its choosing, on whom it has relied for this purpose, that the Warrant and the Warrant Shares have not been registered under the Securities Act on the grounds that the grant of the Warrant and the issuance of securities hereunder are exempt from registration under the Securities Act pursuant to Section 4(2) thereof, and that the Company's reliance on such exemption is predicated on the holder's representations set forth herein and in a separate Investment Representation Certificate.

(e) EXPERIENCE. The holder represents that it is experienced in evaluating and investing in early-stage companies such as the Company, is familiar with the risks associated with the business and operations of early-stage companies, has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment, and has the ability to bear the economic risks of its or his investment. The holder represents that it has had, during the course of the transaction and prior to its acceptance of the Warrant and purchase of the Warrant Shares, the opportunity to request information from and ask questions of the Company and its officers, employees and agents, concerning the Company, its

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assets, business and operations and to receive information and answers to such requests and questions, and that the holder has reviewed the Company's preliminary prospectus dated June 3, 1999 to obtain current information about the Company.

(f) RESTRICTIONS ON RESALE. The holder understands, and has been advised by legal counsel of its choosing, on whom it has relied for this purpose, that the Warrant Shares may not be sold, transferred, or otherwise disposed of without registration under the Securities Act or an exemption therefrom, and that in the absence of an effective registration statement covering the Warrant Shares or an available exemption from registration under the Securities Act, the Warrant Shares must be held indefinitely. The holder agrees that in no event will it make a transfer or disposition of any of the Warrant Shares (other than pursuant to an effective registration statement under the Securities Act), unless and until (i) it shall have notified the Company of the proposed disposition, and (ii) if requested by the Company, the holder shall have furnished to the Company at the holder's expense or its transferee, an opinion of counsel reasonably satisfactory to the Company to the effect that such transfer may be made without registration under the Securities Act. Nothing in this Exhibit C shall impair any rights of the holder under any Registration Rights Agreement applicable to the Warrant or the Warrant Shares or both.

SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT is made as of July ____, 1999 by and among CommTouch Software Ltd., an Israeli company (the "Company"), Vulcan Ventures Incorporated, a Washington corporation ("Vulcan") and Go2Net, Inc., a Delaware corporation ("Go2Net," and together with Vulcan, the "Investors").

WHEREAS, the Investors have indicated a desire to purchase from the Company _____ of the Company's Ordinary Shares concurrently with the closing of the sale of up to 3,000,000 Ordinary Shares, NIS .05 nominal value in the Company's initial public offering whereby the gross proceeds of the offering are at least \$40,000,000 and the price to the public is at least \$15.00 per share (the "IPO").

WHEREAS, the Company has indicated a desire to sell such Ordinary Shares to the Investors and has agreed to register such shares under the Securities Act on the terms set forth herein.

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. PURCHASE AND SALE OF SHARES.

1.1 SALE AND ISSUANCE OF SHARES. Subject to the terms and conditions of this Agreement, the Company agrees to sell to Go2Net and Go2Net agrees to purchase from the Company _____ of the Company's Ordinary Shares. Subject to the terms and conditions of this Agreement, the Company agrees to sell to Vulcan and Vulcan agrees to purchase from the Company _____ of the Company's Ordinary Shares. The Ordinary Shares sold to the Investors are referred to herein as the "Shares." The purchase and sale of the Shares is intended to be a private placement and not a public offering or part of a public offering. The Shares shall have the rights, preferences, privileges and restrictions set forth in the form of Amended and Restated Articles of Association of the Company to be filed with the Israeli Registrar of Companies as in effect immediately prior to the Closing (as defined below).

1.2 THE CLOSING. The purchase and sale of the Shares shall be held at the Company's offices concurrently with the closing of IPO or, if later, upon satisfaction or waiver of each of the conditions set forth in Sections 4 and 5 (the "Closing"). At the Closing, the Company will deliver the Shares to the Investors against payment of the purchase price therefor by wire transfer, certified check or other form of immediately available funds payable to the order of the Company. The per share purchase price for the Shares shall be equal to the per share price at which the Company's Ordinary Shares are offered to the public in the IPO, less any underwriter discounts and commissions.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby makes the representations and warranties to the Investors as set forth on the attached Exhibit A.

3. REPRESENTATION AND WARRANTY OF THE INVESTORS. Each Investor, separately and not jointly, hereby represents and warrants that

3.1 INVESTMENT INTENT. Each of the Investors hereby, severally and not jointly, represents and warrants to the Company that it is a "qualified institutional buyer" as defined in SEC Rule 144A, because in the aggregate it owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with it; for purposes of this representation, securities shall exclude bank deposit notes and certificates of deposits; loan participations; repurchase agreements; securities owned but subject to a repurchase agreement; and currency; interest rate and commodity swaps.

3.2. AUTHORIZATION. Each of the Investors hereby represents, severally and not jointly, that this Agreement and the related agreements to which it is a party have been executed by a duly authorized person on its

behalf; and the execution, delivery and performance hereof and thereof have been duly authorized by all appropriate limited liability company, corporate or partnership action.

3.3. ENFORCEABILITY. Each of the Investors hereby, severally and not jointly, represents that such Investor has full legal power to enter into this Agreement and that the execution and delivery by such Investor of this Agreement will result in legally binding obligations of such Investor enforceable against it or him in accordance with the respective terms and provisions hereof and thereof except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) to the extent the indemnification provisions contained in this Agreement and the Registration Rights Agreement may be limited by applicable federal or state securities laws.

3.4 EXEMPTION. Each Investor understands and has been advised by legal counsel of its choosing, on whom it has relied for this purpose, that the Shares have not been registered under the Securities Act on the grounds that the sale provided for in this Agreement and the issuance of securities hereunder are exempt from registration under the Securities Act pursuant to Section 4(2) thereof, and that the Company's reliance on such exemption is predicated on the Investor's representations set forth herein and in a separate Investment Representation Certificate.

3.5 EXPERIENCE. Each Investor represents, separately and not jointly, that it is experienced in evaluating and investing in early-stage companies such as the Company, is familiar with the risks associated with the business and operations of early-stage companies, has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment, and has the ability to bear the economic risks of its or his investment. Each such Investor represents that it has had, during the course of the transaction and prior to its purchase of the Shares, the opportunity to request information from and ask questions of the Company and its officers, employees and agents, concerning the Company, its assets, business and operations and to receive information and answers to such requests and questions, and that the Investor has reviewed the Company's preliminary prospectus dated June 3, 1999 to obtain current information about the Company.

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3.6 RESTRICTIONS ON RESALE. Each Investor understands, and has been advised by legal counsel of its choosing, on whom it has relied for this purpose, that the Shares may not be sold, transferred, or otherwise disposed of without registration under the Securities Act or an exemption therefrom, and that in the absence of an effective registration statement covering the Shares or an available exemption from registration under the Securities Act, the Shares must be held indefinitely. Each Investor agrees that in no event will such Investor make a transfer or disposition of any of the Shares (other than pursuant to an effective registration statement under the Securities Act), unless and until (i) such Investor shall have notified the Company of the proposed disposition, and (ii) if requested by the Company, such Investor shall have furnished to the Company at the expense of such Investor or its transferee, an opinion of counsel reasonably satisfactory to the Company to the effect that such transfer may be made without registration under the Securities Act.

4. CONDITIONS TO THE INVESTORS' OBLIGATION AT CLOSING. The obligation of the Investors to purchase the Shares at the Closing is subject to the fulfillment to the Investors' satisfaction on or prior to the Closing of the following conditions:

4.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties made by the Company in Section 2 hereof shall be true and correct when made, and shall be true and correct as of the Closing with the same force and effect as if they had been made on and as of such date, subject to changes contemplated by this Agreement, and the Company shall have provided a certificate of one of its executive officers dated as of the Closing to this effect.

4.2. COVENANTS AND AGREEMENTS. The Company shall have performed or

fulfilled all agreements, obligations and conditions contained in this Agreement required to be performed, observed or fulfilled by the Company on or before Closing.

4.3 AUTHORIZATIONS. All authorizations, approvals or permits, if any, of any governmental authority or regulatory body that are required in connection with the lawful issuance and sale of the Shares pursuant to this Agreement shall have been duly obtained and shall be effective on and as of the Closing. The Company's Ordinary Shares shall have been duly approved for inclusion on The Nasdaq National Market, subject to the closing of the IPO and to official notice of issuance.

4.4 INITIAL PUBLIC OFFERING OF ORDINARY SHARES. The closing of the IPO shall have occurred or shall occur simultaneously with the Closing.

4.5 CUSTOMIZED WEB-BASED EMAIL SERVICES AGREEMENT, WARRANT AND WARRANT REGISTRATION RIGHTS AGREEMENT. The Customized Web-based Email Services Agreement and the related Warrant issued by the Company to Go2Net and the Registration Rights Agreement among the Company, Go2Net and Vulcan, each dated on or about the date of this Agreement, shall have been executed and delivered by the parties to such agreements.

4.6 EXEMPTION FROM HSR ACT. The acquisition of the Shares shall be exempt from the filing and notification requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 as amended (the "HSR Act").

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5. CONDITIONS TO THE COMPANY'S OBLIGATIONS AT CLOSING. The obligation of the Company to sell the Shares at the Closing is subject to the fulfillment to the Company's satisfaction on or prior to the Closing of the following conditions:

5.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of each Investor contained in Section 3 hereof shall be true as of the Closing with the same force and effect as if they had been made on and as of such date, subject to changes contemplated by this Agreement, and each Investor shall have provided a certificate of one of its executive officers dated as of the Closing to this effect.

5.2. COVENANTS AND AGREEMENTS. The Investors shall have performed or fulfilled all agreements, obligations and conditions contained in this Agreement required to be performed, observed or fulfilled by the Investors on or before Closing.

5.3 AUTHORIZATIONS. All authorizations, approvals or permits, if any, of any governmental authority or regulatory body that are required in connection with the lawful issuance and sale of the Shares pursuant to this Agreement (including if applicable the approval of the Office of Chief Scientist of the Israeli Ministry of Trade and Industry) shall have been duly obtained and shall be effective on and as of the Closing. The Company's Ordinary Shares shall have been duly approved for inclusion on The Nasdaq National Market, subject to the closing of the IPO and to official notice of issuance.

5.4 CUSTOMIZED WEB-BASED EMAIL SERVICES AGREEMENT, WARRANT AND WARRANT REGISTRATION RIGHTS AGREEMENT. The Customized Web-based Email Services Agreement and the related Warrant issued by the Company to Go2Net and the Registration Rights Agreement among the Company, Go2Net and Vulcan, each dated on or about the date of this Agreement, shall have been executed and delivered by the parties to such agreements.

5.5 PAYMENT OF PURCHASE PRICE. The Investors shall have delivered to the Company the purchase price for the Shares as set forth in Section 1.2 hereof.

5.6 EXEMPTION FROM HSR ACT. The acquisition of the Shares shall be exempt from the filing and notification requirements of the HSR Act.

6. COVENANTS OF THE COMPANY AND THE INVESTORS.

6.1 LOCK-UP AGREEMENT. Each Investor shall execute and deliver to the Company the same lock-up agreement with the Underwriters that all of the

shareholders of the Company have executed and delivered in connection with the IPO in the form attached as Exhibit B; provided, however, that the lock-up period shall not exceed 180 days.

6.2 NOMINATION OF ONE DIRECTOR. Following the IPO and so long as the Investors hold at least 25% of the aggregate of the Shares and the shares purchasable pursuant to the exercise of the Warrant, the Company agrees to appoint or elect one person designated by the Investors (the "Investors' Nominee") to the board of directors. The Investors' Nominee shall be a senior officer of one of the Investors. If the Investors' Nominee leaves the board for any reason, the Investors shall be entitled to nominate a replacement for the vacancy to be appointed or elected in accordance with the Company's Articles of Association and Memorandum of Association. The Investors' Nominee

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shall be entitled to the same liability insurance coverage, indemnification and expense reimbursement as the other directors of the Company. The Company will enter into a mutually agreeable indemnity agreement with the Investors' Nominee.

6.3 INDEMNIFICATION.

(a) The Company agrees to defend, indemnify and hold the Investors harmless from and against any withholding tax, tax on capital gains, dividends or other income, any transfer tax, stamp duty or similar tax, or any other form of tax, assessment or imposition imposed by the State of Israel with respect to any of the transactions contemplated this Agreement, the Customized Web-based Email Services Agreement, the related Warrant issued by the Company to Go2Net and the Registration Rights Agreement among the Company, Go2Net and Vulcan, each dated on or about the date of this Agreement, including each Investor's purchase, holding and sale of Ordinary Shares of the Company in connection with any of these agreements. Indemnification may take the form of payment of a "gross-up" amount sufficient to cover any U.S. taxes on the indemnification payment. This indemnification obligation by the Company is indefinite in duration.

(b) The foregoing indemnification shall not apply to Israeli tax on income imposed by reason of or attributable to the permanent establishment of such Investor in Israel.

(c) Each Investor agrees to use commercially reasonable best efforts to exercise this Warrant in such manner as to avoid becoming, as a result of such exercise, a 10% or greater shareholder of the Company and shall reasonably cooperate with the Company so as to minimize adverse Israeli tax consequences. The foregoing indemnification shall not apply to the extent any otherwise indemnifiable tax results from an Investor's failure to comply with the foregoing agreements in this subsection (c).

(d) An Investor seeking indemnification will: (a) promptly notify the Company in writing of any claim, suit or proceeding for which defense or indemnity is claimed; (b) cooperate reasonably with the Company at the latter's expense; and (c) allow the Company to control the defense or settlement thereof; provided, however, that the Company may not consent to entry of any judgment or enter into any settlement without the prior written consent of the indemnified Investor (which consent shall not be unreasonably withheld or delayed), unless such judgment or settlement provides solely for money damages or other money payments which the Company actually pays on behalf of the indemnified Investor and includes as an unconditional term thereof a release of the indemnified Investor from all liability in respect of the claim, suit or proceeding giving rise to the claim for indemnification. The indemnified Investor will have the right to participate in any defense of a claim and/or to be represented by counsel of its own choosing at its own expense.

7. MISCELLANEOUS.

7.1 GOVERNING LAW. This Agreement shall be governed in all respects by the laws of the State of Delaware as applied to agreements among Delaware residents entered into and to be performed entirely within Delaware, without regard to the conflict of law provisions thereof.

7.2 SURVIVAL; ADDITIONAL SECURITIES. The representations and warranties set forth in Sections 2 and 3 shall survive the Closing indefinitely. The covenants and agreements set forth in Section 6 shall survive in accordance with their terms. Any new, substituted or additional securities

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which are by reason of any share split, share dividend, recapitalization or reorganization distributed with respect to the Shares ("Share Distributions") shall be immediately subject to the covenants and agreements set forth in Section 6 to the same extent the Shares are at such time covered by such provisions.

7.3 SUCCESSORS AND ASSIGNS. The Investors may not assign their rights under this Agreement prior to Closing. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the respective successors and assigns of the parties hereto. Each Investor may assign its rights under this Agreement to any successor to substantially all of its business or assets. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement. Notwithstanding anything to the contrary contained herein, the covenants set forth in Section 6 shall not be binding upon any entity (other than an affiliate of the Investor) which acquires any of the Shares or a Share Distribution in a transaction permitted hereunder.

7.4 ENTIRE AGREEMENT. This Agreement constitutes the entire understanding and agreement between the parties with regard to the subject matter hereof.

7.5 NOTICES. Except as otherwise provided, all notices and other communications required or permitted hereunder shall be in writing, shall be effective when given, and shall in any event be deemed to be given upon receipt or, if earlier, (i) five days after deposit with the U.S. postal service or other applicable postal service, if delivered by first class mail, postage prepaid, (ii) upon delivery, if delivered by hand, (iii) one business day after the day of deposit with Federal Express or similar overnight courier, freight prepaid, if delivered by overnight courier, (iv) one business day after the day of facsimile transmission, if delivered by facsimile transmission with copy by first class mail, postage prepaid, or (v) one business day after the day of transmission, if delivered by transmission to the electronic mail addresses set forth below the signature of the parties, with copy by first class mail, postage prepaid; and shall be addressed, (a) if to the Investors, to the Investor's address set forth below its signature, or to such other address as the Investor shall have furnished to the Company in writing, or (b) if to the Company, to its address as set forth below its signature, or to such other address as the Company shall have furnished to the Investors in writing.

7.6 AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended and the observance of any term of the Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Investors.

7.7 LEGAL FEES. In the event of any action at law, suit in equity or arbitration proceeding in relation to this Agreement or the Shares or any Share Distribution, the prevailing party shall be paid by the other party a reasonable sum for the attorneys' fees and expenses incurred by such prevailing party.

7.8 EXPENSES. Irrespective of whether the Closing is effected, the Company and the Investors shall each pay their own costs and expenses incurred with respect to the negotiation, execution, delivery and performance of this Agreement; except that the Company shall reimburse

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the Investors for their reasonable expenses and attorneys' fees in connection

with the transactions contemplated by this Agreement to the extent such fees and expenses exceed \$15,000.

7.9 TITLES AND SUBTITLES. The titles of the paragraphs and subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

7.10 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

7.11 SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7.12 CONFIDENTIALITY. The parties hereto agree that, except with the prior written permission of the other party, it shall at all times keep confidential and not divulge, furnish, or make accessible to anyone any confidential information, knowledge, or data concerning or relating to the business or financial affairs of such other party to which said party has been or shall become privy by reason of this Agreement, discussions or negotiations relating to this Agreement, or the performance of its obligations hereunder.

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IN WITNESS WHEREOF, the parties hereto have executed this Share Purchase Agreement as of the day and year set forth above.

COMMTOUCH SOFTWARE LTD.

GO2NET, INC.

By _____
Gideon Mantel, Chief Executive
Officer
c/o CommTouch Software Inc.
3945 Freedom Circle, Suite 730
Santa Clara, CA 95054
408/653-4340
408/653-4343 (Facsimile)
mantel@commtouch.com

By _____
Thomas M. Camp, Vice President
of Business Development
Go2Net, Inc.
999 3rd Avenue, Suite 4700
Seattle, WA 98104
206/447-1595
206/447-1625 (facsimile)
tmc@go2net.com

VULCAN VENTURES INCORPORATED

By _____
William Savoy, Vice President
Vulcan Ventures Incorporated
110 110th Avenue N.E., Suite 550
Bellevue, WA 98004
Attention: William D. Savoy

Exhibits

- A Representations and Warranties by the Company
- B Form of Lock-Up Agreement

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EXHIBIT A TO SHARE PURCHASE AGREEMENT
COMMTOUCH SOFTWARE LTD., GO2NET, INC. AND VULCAN VENTURES INCORPORATED
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

DEFINED TERMS

Capitalized terms used in this Exhibit A and not defined in the Share Purchase Agreement among CommTouch Software Ltd., Go2Net, Inc. and Vulcan Ventures Incorporated shall have the following meanings:

"Act" means the Securities Act of 1933, as amended

"Commission" means the U.S. Securities and Exchange Commission.

"Firm Shares" means the 3,000,000 Ordinary Shares that the Company proposes to sell to the Underwriters under the Underwriting Agreement.

"Option Shares" means the 450,000 Ordinary Shares for which the Company has granted the Underwriters an option to purchase under Section 3 of the Underwriting Agreement.

"Preliminary Prospectus" means any preliminary prospectus included in the Registration Statement prior to the time it becomes or became effective under the Act and any prospectus subject to completion as described in Rule 430A or 434 of the Rules and Regulations.

"Prospectus" means the prospectus included in the Registration Statement at the time it is or was declared effective by the Commission, except that if any prospectus (including any term sheet meeting the requirements of Rule 434 of the Rules and Regulations provided by the Company for use with a prospectus subject to completion within the meaning of Rule 434 in order to meet the requirements of Section 10(a) of the Rules and Regulations) filed by the Company with the Commission pursuant to Rule 424(b) (and Rule 434, if applicable) of the Rules and Regulations or any other such prospectus provided to the Underwriters by the Company for use in connection with the offering of the Securities (whether or not required to be filed by the Company with the Commission pursuant to Rule 424(b) of the Rules and Regulations) differs from the prospectus on file at the time the Registration Statement is or was declared effective by the Commission, the term "Prospectus" shall refer to such differing prospectus (including any term sheet within the meaning of Rule 434 of the Rules and Regulations) from and after the time such prospectus is filed with the Commission or transmitted to the Commission for filing pursuant to such Rule 424(b) (and Rule 434, if applicable) or from and after the time it is first provided to the Underwriters by the Company for such use.

"Registration Statement" means the Company's registration statement on Form F-1 (File No. 333-78531) as amended at the time it is or was declared effective by the Commission, and, in the event of any amendment thereto after the effective date and prior to the First Closing Date (as defined in the Underwriting Agreement), such registration statement as so amended (but only from and after the effectiveness of such amendment), including a registration statement (if any) filed pursuant to Rule 462(b) of the Rules and Regulations increasing the size

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of the offering registered under the Act and information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rules 430A(b) and 434(d) of the Rules and Regulations.

"Representatives" means U.S. Bancorp Piper Jaffray, Prudential Securities Incorporated, and Warburg Dillon Read LLC in their capacity as representatives of the Underwriters

"Rules and Regulations" means and the rules and regulations of the Commission under the Act.

"Securities" means the Firm Shares and any Option Shares purchased pursuant to this Underwriting Agreement.

"Underwriters" means those persons named as underwriters in Schedule I of the Underwriting Agreement.

"Underwriting Agreement" means the Purchase Agreement dated on or about the date of this Agreement among the Company and U.S. Bancorp Piper Jaffray, Prudential Securities Incorporated, and Warburg Dillon Read LLC, as

Representatives of the several underwriters named therein.

REPRESENTATIONS AND WARRANTIES

(i) No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission and each Preliminary Prospectus, at the time of filing thereof, did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; except that the foregoing shall not apply to statements in or omissions from any Preliminary Prospectus in reliance upon, and in conformity with, written information furnished to the Company by an Investor specifically for use in the preparation thereof.

(ii) As of the Closing Date (A) the Registration Statement and the Prospectus (in each case, as amended and/or supplemented) conforms in all material respects to the requirements of the Act and the Rules and Regulations, (B) the Registration Statement (as amended) does not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (C) the Prospectus (as supplemented) does not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they are or were made, not misleading; except that the foregoing shall not apply to statements in or omissions from any such document in reliance upon, and in conformity with, written information furnished to the Company by an Investor specifically for use in the preparation thereof. If the Registration Statement has been declared effective by the Commission, no stop order suspending the effectiveness of the Registration

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Statement has been issued, and no proceeding for that purpose has been initiated or, to the Company's knowledge, threatened by the Commission.

(iii) The consolidated financial statements of the Company, together with the notes thereto, set forth in the Registration Statement and the Prospectus comply in all material respects with the requirements of the Act and fairly present the consolidated financial condition of the Company and its consolidated subsidiaries indicated and the results of operations and changes in cash flows for the periods therein specified in conformity with United States generally accepted accounting principles consistently applied throughout the periods involved (except as otherwise stated therein); and the supporting schedules included in the Registration Statement present fairly the information required to be stated therein. No other financial statements or schedules are required to be included in the Registration Statement or Prospectus. Kost, Forer & Gabbay (a member of Ernst & Young International), which has expressed its opinion with respect to the financial statements and schedules filed as a part of the Registration Statement and included in the Registration Statement and the Prospectus, are independent public accountants as required by the Act and the Rules and Regulations. The summary financial and other data included in the Registration Statement and the Prospectus present fairly the information shown therein and have been compiled on a basis consistent with the financial statements presented therein.

(iv) Each of the Company and CommTouch Software, Inc., a California corporation (the "Subsidiary"), has been duly organized and is validly existing as a corporation under the laws of its jurisdiction of incorporation and the Subsidiary is in good standing under the laws of California. Each of the Company and the Subsidiary has full corporate power and authority to own its properties and conduct its business as currently being carried on and as described in the Registration Statement and the Prospectus, and is duly qualified to do business as a foreign corporation in good standing in each jurisdiction in which it owns or leases real property or in which the conduct of its business makes such qualification necessary and in which the failure to so qualify would have a material adverse effect on the assets or properties, business, results of operations, prospects or condition (financial or otherwise) of the Company and the Subsidiary, taken as a whole (a "Material Adverse Effect").

(v) Except as contemplated in the Registration Statement and the Prospectus, subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, neither the Company nor the Subsidiary has incurred any material liabilities or obligations, direct or contingent, or entered into any material transactions, or declared or paid any dividends or made any distribution of any kind with respect to its capital stock; and there has not been any change in the capital stock (other than a change in the number of outstanding Ordinary Shares due to the issuance of shares upon the exercise of outstanding options or warrants), or any material change in the short-term or long-term debt, or any issuance of options, warrants, convertible securities or other rights to purchase the capital stock, of the Company or the Subsidiary, or any change that had a Material Adverse Effect, or any development involving a prospective Material Adverse Effect.

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(vi) Except as set forth in the Registration Statement and the Prospectus, there is not pending or, to the knowledge of the Company, threatened or contemplated, any action, suit or proceeding to which the Company or the Subsidiary is a party or to which any property or assets of the Company or the Subsidiary is subject before or by any court or governmental agency, authority or body, or any arbitrator, which might result in a Material Adverse Effect.

(vii) There are no contracts or documents of the Company or any of its subsidiaries that are required to be described in the Prospectus or to be filed as exhibits to the Registration Statement by the Act or by the Rules and Regulations that have not been so described or filed.

(viii) This Share Purchase Agreement has been duly authorized, executed and delivered by the Company, and constitutes a valid, legal and binding obligation of the Company, enforceable in accordance with its terms, except as rights to indemnity hereunder may be limited by federal, state or foreign securities laws or the policies underlying such laws and except as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the rights of creditors generally and subject to general principles of equity. The execution, delivery and performance of this Share Purchase Agreement and the consummation of the transactions herein contemplated will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any U.S. or Israeli, state or local statute, any agreement or instrument to which the Company is a party or by which it is bound or to which any of its property is subject, the Company's Memorandum of Association or Articles of Association, or any order, rule, regulation or decree of any court or governmental agency or body having jurisdiction over the Company or any of its properties; no consent, approval, authorization or order of, or filing with, any court or governmental agency or body is required for the execution, delivery and performance of this Share Purchase Agreement or for the consummation of the transactions contemplated hereby, including the issuance or sale of the Shares by the Company, except such as may be required under the Act or state securities or blue sky laws; and the Company has full power and authority to enter into this Share Purchase Agreement and to authorize, issue and sell the Shares as contemplated by this Share Purchase Agreement.

(ix) All of the issued and outstanding shares of equity securities of the Company, including the outstanding Ordinary Shares, are duly authorized and validly issued, fully paid and nonassessable, have been issued in compliance with all Israeli and U.S. federal and state securities laws (including, without limitation, applicable Israeli securities laws), were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and the holders thereof are not subject to personal liability by reason of being such holders; and the share capital of the Company, including the Ordinary Shares, conforms to the description thereof in the Registration Statement and Prospectus. Except as otherwise stated in the Registration Statement and Prospectus, there are no preemptive rights or other rights to subscribe for or to purchase, or any restriction upon the voting or transfer of, any Ordinary Shares pursuant to the Company's Memorandum of Association or Articles of Association or any agreement or other instrument to which the Company is a party or by which the Company is bound. All of the issued and outstanding shares of capital stock of the Subsidiary have been duly and validly authorized and issued and are fully paid and nonassessable, and, except as otherwise

described in the Registration Statement and the Prospectus (and except for options granted after the date of the Registration Statement and the Prospectus to employees of the Company pursuant to the stock option plans described in the Registration Statement and the Prospectus, which options grants have been disclosed to the Representatives), the Company owns of record and beneficially, free and clear of any security interests, claims, liens, proxies, equities or other encumbrances, all of the issued and outstanding shares of such stock. Except as described in the Registration Statement and the Prospectus, there are no options, warrants, agreements, contracts or other rights in existence to purchase or acquire from the Company or the Subsidiary any shares of the capital stock of the Company or the Subsidiary. The Company has an authorized and outstanding capitalization as set forth in the Registration Statement and the Prospectus.

(x) The Shares which may be sold under the Share Purchase Agreement by the Company has been duly authorized and, when issued, delivered and paid for in accordance with the terms hereof, will have been validly issued and will be fully paid and nonassessable, and the holders thereof will not be subject to personal liability by reason of being such holders, and conforms to the description thereof in the Registration Statement and the Prospectus. No further approval or authority of the shareholders of the Company or the Board of Directors of the Company is required for the sale and issuance of the Shares hereunder.

(xi) Neither the filing of the Registration Statement nor the offering or sale of the Shares as contemplated by this Share Purchase Agreement gives rise to any rights for or relating to the registration of any Ordinary Shares or other securities of the Company and no person or entity holds a right to require registration under the Act of shares of capital stock of the Company at any other time, except as disclosed in the Registration Statement and the Prospectus.

(xii) Each of the Company and the Subsidiary holds, and is operating in compliance in all material respects with, all franchises, grants, authorizations, licenses, permits, easements, consents, certificates and orders of any governmental or regulatory body required for the conduct of its business and all such franchises, grants, authorizations, licenses, permits, easements, consents, certifications and orders are valid and in full force and effect; and the Company and the Subsidiary are in compliance in all material respects with all applicable federal, state, local and foreign (including, without limitation, Israeli and U.S.) laws, regulations, orders and decrees.

(xiii) The Company and the Subsidiary have good and marketable title to all property described in the Registration Statement and the Prospectus as being owned by them, in each case free and clear of all liens, claims, security interests or other encumbrances except such as are described in the Registration Statement and the Prospectus; the property held under lease by the Company and the Subsidiary is held by them under valid, subsisting and enforceable leases with only such exceptions with respect to any particular lease as do not interfere in any material respect with the conduct of the business of the Company or the Subsidiary.

(xiv) The Company and the Subsidiary own or possess all patents, patent applications, trademarks, service marks, tradenames, trademark registrations, service mark registrations, copyrights, licenses, inventions, trade secrets know-how, proprietary techniques, processes and rights ("Intellectual Property") used in the conduct of the business of the Company

and the Subsidiary as currently carried on (including products, services and technology contemplated by current research and development projects) and as described in the Registration Statement and the Prospectus. Except as stated in the Registration Statement and the Prospectus, no name which the Company or the

Subsidiary uses and no other aspect of the business of the Company or the Subsidiary will involve or give rise to any infringement of, or license or similar fees for, any Intellectual Property of others material to the business or prospects of the Company and neither the Company nor the Subsidiary has received any notice alleging any such infringement or fee, except as to matters that will not cause a Material Adverse Effect. To the knowledge of the Company, its Intellectual Property is not being infringed by any third parties which infringement could reasonably be expected, whether singly or in the aggregate, to have a Material Adverse Effect.

(xv) Neither the Company nor the Subsidiary (i) is in violation of its respective Memorandum of Association, Articles of Association, charter or by-laws, as the case may be, or other organizational documents (ii) is in breach of or otherwise in default in the performance of any obligation, agreement or condition contained in any bond, debenture, note, indenture, loan agreement or any other contract, lease or other instrument to which any of them is subject or by which any of them may be bound, or to which any of the property or assets of the Company or the Subsidiary is subject, nor has any event occurred nor does any condition exist that with the notice and/or the passage of time would give rise to such a breach or default or (iii) is in violation of any law, ordinance, government rule, regulation or court order or decree to which either of them is subject or by which either of them may be bound or to which any of the property or assets of the Company or the Subsidiary is subject, except in the case of clauses (ii) and (iii) for such breaches, defaults or violations that individually or in the aggregate would not have a Material Adverse Effect.

(xvi) The Company and the Subsidiary have filed all Israel and U.S. federal, state, local and foreign income and franchise tax returns required to be filed and are not in default in the payment of any taxes which were payable pursuant to said returns or any assessments with respect thereto, other than any which the Company or the Subsidiary is contesting in good faith.

(xvii) The Company has not distributed and will not distribute any prospectus or other offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectus or the Prospectus or other materials permitted by the Act to be distributed by the Company.

(xviii) The Shares are duly authorized for quotation on the NASDAQ National Market System, subject to official notice of issuance, and, on the date the Registration Statement became or becomes effective, the Company's Registration Statement on Form 8-A or other applicable form under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), became or will become effective.

(xix) The Company has no subsidiary or subsidiaries other than the Subsidiary and the Company owns no capital stock or other equity or ownership or proprietary interest in any corporation, partnership, limited liability company, joint venture association, trust or other entity, other than the Subsidiary.

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(xx) Each of the Company and the Subsidiary maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxi) Other than as contemplated by the Underwriting Agreement and a separate fee agreement with U.S. Bancorp Piper Jaffray, the Company has not incurred any liability for any finder's or broker's fee or agent's commission in connection with the execution and delivery of this Share Purchase Agreement, the Underwriting Agreement or the consummation of the transactions contemplated by such agreements.

(xxii) Neither the Company nor any of its affiliates is presently doing business with the government of Cuba or with any person or affiliate located in Cuba.

(xxiii) No labor dispute with the employees of the Company or any of its subsidiaries exists or, to the knowledge of the Company, is threatened; and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its principal suppliers or contractors which could have a Material Adverse Effect. Neither the Company nor any of its subsidiaries has violated any applicable safety or similar law applicable to its business nor any federal or state law relating to discrimination in the hiring, promotion or pay of employees, nor any applicable federal or state wage and hours law, nor any provisions of the Employee Retirement Income Security Act or the rules and regulations promulgated thereunder, the violation of any of which could have a Material Adverse Effect. The Company is not aware of any threatened or pending litigation between the Company or any of its subsidiaries and any of its executive officers which, if adversely determined, could have a Material Adverse Effect, and has no reason to believe that such officers will not remain in the employment of the Company during the next twelve months.

(xxiv) No transaction has occurred or relationship exists between or among the Company or the Subsidiary and any of their officers or directors or any affiliate or affiliates of any such officer or director that is required to be described in and is not described in the Registration Statement and the Prospectus.

(xxv) The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks in such amounts as are customary in the business in which they are engaged; and neither the Company nor any subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue their business at a cost that would not have a Material Adverse Effect.

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(xxvi) There are no affiliations with the National Association of Securities Dealers, Inc. (the "NASD") among the Company's officers, directors or, to the best knowledge of the Company, any five percent or greater shareholder of the Company, except as set forth in the Registration Statement and the Prospectus or otherwise disclosed in writing to the Representatives.

(xxvii) Neither the Company nor any of its subsidiaries is an "investment company" nor a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (the "Investment Company Act").

(xxviii) Neither the Company nor any of its subsidiaries or, to the knowledge of the Company, any other person associated with or acting on behalf of the Company or any of its subsidiaries including, without limitation, any director, officer, agent or employee of the Company or any of its subsidiaries has, directly or indirectly, while acting on behalf of the Company or any of its subsidiaries, (i) used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity; (ii) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds; (iii) violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or (iv) made any other unlawful payment.

(xxix) The Company has reviewed its operations and that of its subsidiaries and any third parties with which the Company or any of its subsidiaries has a material relationship to evaluate the extent to which the business or operations of the Company or any of its subsidiaries will be affected by the Year 2000 Problem (defined below). As a result of such review, the Company has no reason to believe, and does not believe, that the Year 2000 Problem will have a Material Adverse Effect, or result in any material loss or interference with the Company's business or operations. The "Year 2000 Problem"

as used herein means any significant risk that computer hardware or software used in the receipt, transmission, processing, manipulation, storage, retrieval, retransmission or other utilization of data or in the operation of mechanical or electrical systems of any kind will not, in the case of dates or time periods occurring after December 31, 1999, function at least as effectively as in the case of dates or time periods occurring prior to January 1, 2000.

(xxx) The Company does not believe that it is, and upon the consummation of the transactions contemplated hereby and the application of the proceeds as described in the Registration Statement and the Prospectus under the caption "Use of Proceeds" does not believe that it will become, a "passive foreign investment company" (herein called a PFIC) as defined in Section 1296 of the Internal Revenue Code of 1986, as amended (herein called the Code).

(xxxi) The Company has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Ordinary Shares to facilitate the sale or resale of the Shares.

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(xxxii) The Company has received from the Israel Securities Authority an exemption from the requirement to publish a prospectus in Israel for the offer of the Shares in the manner required by the applicable laws of the State of Israel, which exemption was in full force and effect on the date hereof and which shall be in full force and effect on the date of the Prospectus, on the date that any post-effective amendment to the Registration Statement shall become effective, when any supplement or amendment to the Prospectus is filed with the Commission, and at the Closing Date. It is further understood that no public offering (as defined under the laws of the State of Israel) pursuant to the Prospectus will be made within the State of Israel by the Company.

(xxxiii) Each of the Company and the Subsidiary is in material compliance with all conditions and requirements stipulated by the instruments of approval issued by the Investment Center of the Ministry of Industry and Commerce granted entitling it or any of its operations to the status of "approved enterprise" under Israeli law and by Israeli laws and regulations relating to such approved enterprise status except as would not have a Material Adverse Effect. All information supplied by the Company with respect to such applications was true, correct and complete in all material respects when supplied to the appropriate authorities. The Company does not know of any reason or circumstance that would lead to revocation of its status as an "approved enterprise."

(xxxiv) Neither the Company nor any of its subsidiaries is in violation of any conditions or requirements stipulated by the instruments of approval granted to any of them by the Office of the Chief Scientist in the Ministry of Industry & Commerce, with respect to any research and development grants given to it by such office, which violation, individually or in the aggregate, would have a Material Adverse Effect. The Company qualifies as an "Industrial Company" within the definition of the Law for the Encouragement of Industry (Taxes), 1969, of the State of Israel.

(xxxv) No transfer tax, stamp duty or similar tax is payable by or on behalf of the Investors in connection with: (i) the issuance by the Company of the Shares; (ii) the purchase by the Investors of the Shares from the Company; (iii) the consummation by the Company of any of its obligations under the Share Purchase Agreement; or (iv) assuming the Investors are not subject to taxation in Israel, resale of the Shares by the Investors.

(xxxvi) The Company has duly and irrevocably appointed the Subsidiary, a corporation organized under the laws of the State of California, as its agent to receive service of process in any action against it in any United States federal or state court arising out of or in connection with the this Agreement or the transactions contemplated hereby.

(xxxvii) The acquisition of the Shares by the Investors in accordance with the terms of the Share Purchase Agreement is exempt from the premerger notification and filing requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 as amended.

(xxxviii) The five page list attached as Exhibit A-1 to this Exhibit A accurately describes for each of the Company's business partners as of June 30, 1999: its name, launch date, contract date, term date, total contract minimum, revenue sharing percentages, the party

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responsible for paying for advertisements, ownership of user base, use of premium services, use of In Box Direct service and use of Bonus Mail service.

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REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the "Agreement") is made as of July __, 1999 by and among CommTouch Software Ltd., an Israeli company (the "Company"), and Go2Net, Inc., a Delaware corporation ("Go2Net"), and Vulcan Ventures Incorporated, a Washington corporation (together with Go2Net, the "Holders").

RECITALS

A. The Holders and the Company are parties to the Share Purchase Agreement dated as of the date hereof (the "Share Purchase Agreement"), pursuant to which the Holders have acquired in the aggregate _____ shares of the Company's Ordinary Shares, with a nominal value NIS 0.05 (the "Purchased Shares").

B. The Company has granted Go2Net a warrant (the "Warrant") to purchase 1,136,000 shares of the Company's Ordinary Shares at a per share price of \$12.80, as may be adjusted pursuant to the terms of the Warrant (the "Warrant Shares").

C. The Company desires to grant, and the Holders desire to be granted, the registration rights created herein.

NOW, THEREFORE, in consideration of the mutual promises and covenants hereinafter set forth, the parties hereto agree as follows:

1. Certain Definitions. All capitalized terms used and not otherwise defined herein shall have the meanings given them in the Stock Purchase Agreement. As used in this Agreement, the following terms shall have the following respective meanings:

"Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"Registrable Securities" means any of (i) Purchased Shares, (ii) the Warrant Shares and (iii) any other securities issued or issuable with respect to the Purchased Shares or the Warrant Shares by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise.

The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"Registration Expenses" shall mean all expenses, except as otherwise stated below, incurred by the Company in complying with Section 2.1 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses, stock transfer taxes

applicable to the securities registered by the Holders, all fees and disbursements of one (1) counsel for the Holders, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company, which shall be paid in any event by the Company).

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Selling Expenses" shall mean all underwriting discounts and selling commissions.

2. Registration

2.1 Registration of Registrable Securities. The Company shall use its best efforts to file with the Commission a registration statement on Form F-1 (or any successor form to F-1) for a public resale offering by the Holders of the Registrable Shares (including, without limitation, with respect to Go2Net, the Warrant Shares) and the Warrant as soon as practicable, but in no event later than 180 days from the date hereof, and shall cause such registration statement to become and remain effective for the period ending on the first to occur of (i) the date the resale of all of the Registrable Shares registered thereunder is complete and the full exercise of the Warrant or (ii) two (2) years from the date hereof. Any registration pursuant to this Section 2.1 may be firmly underwritten by an underwriter of national recognition which shall be selected by the Holders and be reasonably satisfactory to the Company. The Company shall promptly prepare and file with the Commission such amendments to the registration statement as may be necessary to keep such registration statement effective for a period of two (2) years, or as is necessary to reflect any transfer of the Warrant and/or the Warrant Shares by Go2Net, pursuant to the terms and conditions of the Warrant. In the event that the Company fails to register the Registrable Shares and the Warrant in accordance with the foregoing, then the Warrant Price (as such term is defined in the Warrant) shall be decreased from \$12.80 to \$10.51.

2.2 Expenses of Registration. All Registration Expenses incurred in connection with registrations pursuant to Section 2.1 shall be borne by the Company. Selling Expenses shall be borne by the Holders on a pro rata basis based upon the number of Registrable Shares registered on such registration statement.

2.3 Registration Procedures. In the case of each registration, qualification or compliance effected by the Company pursuant to this Agreement, the Company will keep each Holder advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. The Company will:

(a) Prepare and furnish to each Holder and to the underwriters (if any) of the securities being registered such reasonable number of copies of the registration statement,

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preliminary prospectus, final prospectus (any supplements or revisions thereto required under the Securities Act) and such other documents as the Holders and underwriters may reasonably request in order to facilitate the public offering of such securities and make the Company's representatives and the Company's counsel available for discussion of such document and make such changes in such document relating to the Holders prior to the filing thereof as such Holders, counsel for such Holders, or underwriters may reasonably request.

(c) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(d) Notify the Holders at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing; and to promptly prepare and file all amendments or supplements and related revised prospectuses as shall be required under the Securities Act as a result of such untrue statements or omissions.

(e) Use its best efforts to comply with all applicable federal and state securities laws (including without limitation the rules and regulations of the Commission), and make generally available to its security holders earning statements satisfying the provisions of Section 11(a) of the

Securities Act no later than forty-five (45) days after the end of a twelve (12) month period after the Closing Date (or within ninety (90) days after the end of a fiscal year).

(f) At the request of any Holder, use its best efforts to furnish on the date that the Registrable Shares are delivered to any underwriter for sale in connection with a registration pursuant to this Agreement (i) an opinion of the counsel representing the Company for the purposes of such registration, and (ii) a letter from the independent certified public accountants of the Company, each dated such date and in form and substance as is customarily given by counsel and independent certified public accountants to underwriters in an underwritten public offering, addressed to any Holders' underwriter and to the Holders.

2.4 Indemnification.

(a) With respect to any registration of Registrable Shares and, with respect to Go2Net, the Warrant, the Company will indemnify the Holders, their officers and directors and partners, and each person controlling the Holders within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages or liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or

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based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act of 1933, the Securities Exchange Act of 1934, state securities law or any rule or regulation promulgated under such laws applicable to the Company in connection with any such registration, qualification or compliance, and the Company will reimburse each Holder, each of their officers, directors and partners, and each person controlling the Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred, as such expenses are incurred, in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, whether or not resulting in any liability, provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by the Holders, controlling person or underwriter and stated to be specifically for use therein; provided, however, that the foregoing indemnity agreement is subject to the condition that, insofar as it relates to any such untrue statement, alleged untrue statement, omission or alleged omission made in a preliminary prospectus, such indemnity agreement shall not inure to the benefit of any underwriter, or the Holders, if there is no underwriter, if a copy of the final prospectus filed with the Commission pursuant to its Rule 424(b) was not furnished to the person asserting the loss, liability, claim or damage at or prior to the time such action is required by the Securities Act, and if such final prospectus cured the untrue statement, alleged untrue statement, omission or alleged omission giving rise to the loss, liability, claim or damage.

(b) With respect to any registration of Registrable Shares and the Warrant, each Holder will indemnify, severally and not jointly, the Company, each of its directors and officers, each underwriter, if any, of the Company's securities covered by such registration statement, and each person who controls the Company or such underwriter within the meaning of Section 15 of the Securities Act against all expenses, claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such directors, officers, partners, persons, underwriters or

control persons for any legal or any other expenses reasonably incurred, as such expenses are incurred, in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by a Holder and stated to be specifically for use therein. Notwithstanding the foregoing, the liability of a Holder under this Section 2.4(b) shall be limited to and in proportion to an amount equal to the net proceeds received by such Holder from the sale of the Registrable Shares sold by

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such Holder pursuant to such registration statement. In no event will a Holder be required to enter into any agreement or undertaking for the benefit of the Company in connection with any registration under this Agreement providing for any indemnification or contribution obligations on the part of the Holder greater than the Holder's obligations under this Section 2.4 (b).

(c) Each party entitled to indemnification under this Section 2.4 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement unless the failure to give such notice is materially prejudicial to an Indemnifying Party's ability to defend such action, and provided further that the Indemnifying Party shall not assume the defense for matters as to which representation of both the Indemnifying Party and the Indemnified Party by the same counsel would be inappropriate due to actual or potential differing interests between them, but shall instead in such event pay the fees and costs of separate counsel for the Indemnified Party. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. No Indemnified Party shall be entitled to indemnification from any Indemnifying Party for any amounts paid in any settlement effected without the consent of the Indemnifying Party.

(d) The indemnification provided for under this Agreement will remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Party or any officer, director or controlling person of such Indemnified Person.

2.5 Information by Holder. If a Holder's Registrable Securities are included in any registration under this Agreement, the Holder shall furnish to the Company such information regarding the Holder, the Registrable Securities held by it and the distribution proposed by it as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to in this Agreement.

2.6 Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Registrable Shares to the public without registration, assuming that a public market exists for the Ordinary Shares of the Company, the Company agrees to use its best efforts to:

(a) Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act during the term of this Agreement;

(b) File with the Commission in a timely manner all reports and other

documents required of the Company under the Securities Act and the Securities Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) So long as the Holder owns any Registrable Securities, to furnish to the Holder forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 and of the Securities Act and the Securities Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company and other information in the possession of or reasonably obtainable by the Company as the Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing the Holder to sell any such securities without registration.

2.7 Transfer of Registration Rights. The rights to cause the Company to register securities granted the Holder under Sections 2.1 may be assigned or transferred to a transferee of any of the Registrable Securities.

3. Termination. The rights of a Holder under Section 2.1 of this Agreement shall terminate as to the Holder at such time as such Holder can sell all of its Registrable Securities pursuant to Rule 144(k) promulgated under the Securities Act.

4. Pari Passu Rights. While this Agreement is in effect, the Company shall be prohibited from granting any registration rights to any other party which rank superior to or pari passu with those granted to the Holders hereunder; provided that this Section 4 shall not affect any registration rights previously granted by the Company.

5. Amendment. Any provision of this Agreement may be amended or the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Holders.

6. Governing Law. This Agreement and the legal relations between the parties arising hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware.

7. Entire Agreement. This Agreement constitutes the full and entire understanding and agreement between the parties regarding the matters set forth herein. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon the successors, assigns, heirs, executors and administrators of the parties hereto.

8. Notices, Etc. All notices and other communications required or permitted hereunder shall be in writing and shall be deemed effectively given upon personal delivery to the party to be notified in person, by facsimile or by overnight delivery service or five (5) days after deposit with the United States mail, by registered or certified mail, postage prepaid, addressed (a) if to the Holders, at each Holder's address as set forth in the Share Purchase Agreement, or at such other address as such Holder shall have furnished to the Company in writing in accordance with this Section 8, or (b) if to the Company, at its address for notices set forth in the Stock Purchase Agreement.

9. Changes in Ordinary Shares. If, and as often as, there is any change in the Ordinary Shares by way of a stock split, stock dividend, combination or reclassification, or through a merger, consolidation, reorganization or recapitalization, or by any other means, then appropriate adjustment shall be made in the provisions hereof so that the rights and privileges granted hereby shall continue with respect to the Registrable Shares as so changed.

10. Listing of Ordinary Shares. The Company shall, at its expense, list all of the Ordinary Shares owned by each Holder of any class of stock of the Company that is at any time listed on a national securities exchange with such national securities exchange.

11. Attorneys' Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party shall be entitled to all costs and expenses of maintaining such suit or action, including

reasonable attorney's fees.

12. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument. 13. Relief. In addition to any other relief which may be available to Holder hereunder at law or in equity, Holder shall have the right to seek specific performance of the Company's obligations hereunder.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement under seal as of the date first above written.

"COMPANY"

COMMTOUCH SOFTWARE LTD.
an Israeli company

By:

Name: Gideon Mantel
Title: Chief Executive Officer

GO2NET, INC.
a Delaware corporation

By:

Name: Thomas M. Camp
Title: Vice President of Business Development

VULCAN VENTURES INCORPORATED

By:

Name: William D. Savoy
Title: Vice President

[ERNST & YOUNG/KOST FORER & GABBAY LETTERHEAD]

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts", and to use of our reports dated March 15, 1999 (Except for Note 11, as to which the date is July 12, 1999) in the Amendment No. 4 to the Registration Statement (Form F-1) with respect to the consolidated financial statements and schedule, respectively and related Prospectus of CommTouch Software Ltd. for the registration of 3,000,000 shares of its ordinary shares.

Tel-Aviv, Israel
July 12, 1999

/s/ KOST FORER & GABBAY
KOST FORER & GABBAY
A member of Ernst & Young International