CYREN LTD.

FORM 6-K
(Report of Foreign Issuer)

Filed 07/27/00 for the Period Ending 07/01/00

Telephone	7037603320
CIK	0001084577
Symbol	CYRN
SIC Code	7372 - Services-Prepackaged Software
Industry	Software
Sector	Technology
Fiscal Year	12/31

COMMTOUCH SOFTWARE LTD

FORM 6-K
(Report of Foreign Issuer)

Filed 7/27/2000 For Period Ending 7/1/2000

Address	C/O COMMTOUCH SOFTWARE INC 3945 FREEDOM CIRCLE SUITE 730
	SNTA CLARA, California 95054
Telephone	408-653-4330
CIK	0001084577
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

FORM 6-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 or 15d-16 OF
THE SECURITES EXCHANGE ACT OF 1934

For the month of July 2000
(containing quarterly information for the quarter ended March 31, 2000)

Commtouch Software Ltd.

(Translation of registrant's name into English)

6 Hazoran Street
Poleg Industrial Park, P.O. Box 8511
Netanya 42504, Israel
011-972-9-863-6888
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will
file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F

Indicate by check mark whether the registrant by furnishing

the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No X

COMMTOUCH SOFTWARE LTD.
FORM 6-K

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COMMTOUCH SOFTWARE LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2000 (unaudited)	December 31, 1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 58,944	$ 65,996
Marketable securities	14,784	18,050
Trade receivables	3,779	2,378
Prepaid marketing expenses	2,567	4,508
Prepaid expenses and other accounts receivable	3,017	1,648
Total current assets	83,091	92,580
Other assets	1,738	1,608
Long-term Investment	3,000	--
Property and Equipment, net	8,146	6,148
	$ 95,975	$ 100,336
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Current portion of bank loans and capital leases	92	120
Accounts payable	2,640	1,510
Employees and payroll accruals	1,293	1,032
Other liabilities and accrued expenses	2,697	1,865
Total current liabilities	6,722	4,527
Long-term Portion Capital Leases	40	44
Accrued Severance Pay	656	453
	696	497
Shareholders' Equity		
Ordinary shares	218	213
Additional paid-in capital	135,501	133,403
Deferred compensation	(5,016)	(5,779)
Notes receivable from shareholders	(2,126)	(1,060)
Unrealized holding gains (losses)	(32)	63
Accumulated deficit	(39,988)	(31,528)
Total shareholders' equity	88,557	95,312
	$ 95,975	$ 100,336

The accompanying note is an integral part of these condensed consolidated financial statements.

COMMTOUCH SOFTWARE LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended March 31, 2000 (unaudited)	Three Months Ended March 31, 1999 (unaudited)
Revenues	$ 4,272	$ 346
Cost of revenue	2,121	435
Gross profit(loss)	2,151	(89)
Operating expenses:		
Research and development, net	1,993	340
Sales and marketing	4,746	608
General and administrative	2,106	617
Amortization of the prepaid marketing expenses	1,941	--
Amortization of deferred compensation	763	386
Total operating expenses	11,549	1,951
Operating loss	(9,398)	(2,040)
Interest and other income (expense), net	938	(271)
Net loss	$ (8,460)	$ (2,311)
Basic and diluted net loss per share	$ (0.56)	$ (1.54)
Weighted average number of shares used in computing basic and diluted net loss per share	15,119	1,498

The accompanying note is an integral part of these condensed consolidated financial statements.

COMMTOUCH SOFTWARE LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months ended March 31, 2000 (unaudited)	Three Months ended March 31, 1999 (unaudited)
Cash flows from operating activities:		
Net loss	$ (8,460)	$ (2,311)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,180	173
Amortization of deferred compensation and warrants issued for service received and bank line of credit	763	641
Amortization of the prepaid marketing expenses	1,941	--
Increase in trade receivables	(1,401)	(188)
Increase in other accounts receivable and prepaid expenses	(1,369)	(285)
Increase in accounts payable	1,130	18
Increase in other liabilities	1,147	167
Increase (Decrease) in deferred revenue	(54)	58
Increase in accrued severance pay, net	73	44
Net cash used in operating activities	(5,050)	(1,683)
Cash flows from investing activities:		
Proceeds from sale of available for sale marketable securities	3,171	--
Purchase of Long-term investment	(3,000)	--
Purchase of property and equipment	(3,178)	(950)
Net cash used in investing activities	(3,007)	(950)
Cash flows from financing activities:		
Short-term bank line of credit, net	--	(242)
Payment of capital lease	(32)	(25)
Proceeds from issuance of shares	1,037	5,292
Net cash provided by financing activities	1,005	5,025
Increase (Decrease) in cash and cash equivalents	(7,052)	2,392
Cash and cash equivalents at the beginning of the period	65,996	834
Cash and cash equivalents at the end of the period	$ 58,944	$ 3,226
Supplemental disclosure of cash flows activity:		
Cash paid during the year:		
Interest	$ 5	$ 33
Ordinary shares issued for notes receivable from shareholders	$ 1,066	$ 887

The accompanying note is an integral part of these condensed consolidated financial statements.

COMMTOUCH SOFTWARE LTD.

NOTE TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation:

The condensed consolidated financial statements have been prepared by Commtouch Software Ltd., without audit, and include the accounts of Commtouch Software Ltd. and its wholly-owned subsidiaries (collectively "the Company"). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position at March 31, 2000 and the operating results and cash flows for the reported periods. These financial statements and notes should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 1999, which were filed with the Securities and Exchange Commission on Form 20-F.

The results of operations for the three months ended March 31, 2000 are not necessarily indicative of the results that may be expected for future quarters or the year ending December 31, 2000.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the condensed consolidated financial statements and the note thereto in Part I, Item 1 of this quarterly report and with Management's Discussion and Analysis of Financial Conditions and Results of Operations contained in the Company's Annual Report on Form 20-F for the year ended December 31, 1999.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations 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" in the Company's Annual Report on Form 20-F for the year ended December 31, 1999.

Overview

Commtouch Software Ltd. ("Commtouch" or "the Company") and its subsidiaries are a leading global provider of outsourced integrated Web-based email and messaging solutions to businesses. Our solutions are flexible, highly customizable and enable us to satisfy the unique email and messaging needs of our customers worldwide. Our customers are large and small businesses who offer our Web-based email through their website to their end users. As of March 31, 2000, we had more than 300 global customers. Through our customers' sites we serve approximately 13.5 million active emailboxes. We also serve over 1.2 million active emailboxes to small businesses and websites through our ZapZone Network.

Results of Operations

The following table sets forth financial data for the three months ended March 31, 2000 and 1999 (in thousands):

	Three Months Ended March 31, 2000 (unaudited)	Three Months Ended March 31, 1999 (unaudited)
Revenues	$ 4,272	$ 346
Cost of revenues	2,121	435
Gross profit (loss)	2,151	(89)
Operating expenses:		
Research and development, net	1,993	340
Sales and marketing	4,746	608
General and administrative	2,106	617
Amortization of the prepaid marketing expenses	1,941	--
Amortization of deferred compensation	763	386
Total operating expenses	11,549	1,951
Operating loss	(9,398)	(2,040)
Interest and other income (expense), net	938	(271)
Net loss	$ (8,460)	$ (2,311)

Comparison of the Three Months Ended March 31, 2000 and 1999

Revenues. Revenues increased from $346,000 for the three months ended March 31, 1999 to $4,272,000 for the three months ended March 31, 2000. The key factor contributing to the growth of our revenues for the three month period ended March 31, 2000 is the increase in the number of business partners that have contracts that are generating revenue for the Company. As of March 31, 2000, the Company had backlog from minimum service fee contracts amounting to approximately $22,000,000, which will be recognized as revenue over future quarters.

Cost of Revenues. Cost of revenues increased from $435,000 for the three months ended March 31, 1999 to $2,121,000 for the three months ended March 31, 2000 because of the increase in the number of business partners and one time charges for headhunter fees. 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. Our research and development costs increased from $340,000 for the three months ended March 31, 1999 to $1,993,000 for the three months ended March 31, 2000 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 and direct sales efforts, including travel expenses. Our sales and marketing expenses increased from $608,000 for the three months ended March 31, 1999 to $4,746,000 for the three months ended March 31, 2000 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 expenses will be somewhat proportionate to the increase in revenues. If 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 $617,000 for the three months ended March 31, 1999 to $2,106,000 for the three months ended March 31, 2000 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 will increase in absolute dollar amounts but as a percentage of total revenues will start to decline in the next several quarters.

Amortization of the Prepaid Marketing Expenses. Amortization of the prepaid marketing expenses relating to the Go2Net and Microsoft warrants was $1,941,000 for the three months ended March 31, 2000. The prepaid marketing expense is being amortized using the straight line method over the minimum term of the commercial agreements with these two companies, or one year.

Amortization of Deferred Compensation. Stock-based employee deferred compensation expenses increased from $386,000 for the three months ended March 31, 1999 to $763,000 for the three months ended March 31, 2000. The deferred compensation is being amortized using the sum-of-digits method over the vesting schedule, generally four years.

Interest and other income (expense), net. Interest and other income (expense), net, fluctuated from a net expense of $271,000 for the three months ended March 31, 1999 to a net income of $938,000 for the three months ended March 31, 2000 due primarily to interest income earned from cash and cash equivalents generated from the initial public offering.

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. On July 16, 1999, the Company raised $70,786,000, net of underwriters commission ($66,177,000 net of expenses), from the public offering (including the exercise of the underwriters' overallotment option) and the private placement that was part of the strategic partnership with Go2Net, Vulcan Ventures and Microsoft. As of March 31, 2000, we had $58,944,000 in cash and cash equivalents.

Net cash provided by financing activities was $1,005,000 for the three months ended March 31, 2000. Net cash provided by financing activities primarily consisted of cash received from employees related to the exercise of stock options. Net cash used in operating activities was $5,050,000 for the three months ended March 31, 2000. Net cash used for operating activities is comprised of net loss for the three months, partially offset by depreciation and amortization expenses. Net cash used in investing activities was $3,007,000 for the three months ended March 31, 2000. These investing activities consisted of purchases of property and equipment, sale of available for sale securities, and purchase of a long-term investment.

As of March 31, 2000, we had net working capital of $76,369,000.

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 in our Annual Report on form 20-F filed with the Commission in June 2000. 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 five to 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, 1999, we have not yet used the tax benefits for which we are eligible.

Proposed Tax Reform

On May 4, 2000, a committee chaired by the Director General of the Israeli Ministry of Finance, Avi Ben-Bassat, issued a report recommending a sweeping reform in the Israeli system of taxation. The proposed reform would significantly alter the taxation of individuals, and would also affect corporate taxation. In particular, the proposed reform would reduce, but not eliminate, the tax benefits available to approved enterprises such as ours. The Israeli cabinet has approved the recommendations in principle, but implementation of the reform requires legislation by Israel's Knesset. The Company cannot be certain whether the proposed reform will be adopted, when it will be adopted or what form any reform will ultimately take.

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 generally exceeded the devaluation of the NIS against the dollar and the Company experienced increases in the dollar cost of its operations 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 our 1999 Consolidated Financial Statements in current operations.

The representative exchange rate, as reported by the Bank of Israel, was NIS 4.026 for one dollar on March 31, 2000.

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.

PART II. OTHER INFORMATION

Item 3. Information Incorporated by Reference

The information in this Report on Form 6-K is incorporated by reference into all Registration Statements which we have filed or which we will file in the future under the Securities Act of 1933, as amended, which permit such reports to be so incorporated.

Item 4. Exhibits

The document attached hereto as Exhibit 1 is incorporated by reference.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

<u>**COMMTOUCH SOFTWARE, LTD.**</u>
(Registrant)

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Date                                          By
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                                              James E. Collins
                                              Chief Financial Officer
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Exhibit Index

Exhibit	Description of Document
1	April 18, 2000 Press Release: "Commtouch Reports 91% Growth in Revenues for Q1 2000"

EXHIBIT 1

Commtouch Reports 91% Growth in Revenues for Q1 2000

RECORD GROSS PROFIT MARGIN OF 50%

Santa Clara, California (April 18, 2000) -- Commtouch (Nasdaq: CTCH), the worldwide leader in integrated email outsourcing services today announced results for the first quarter 2000. Revenues for the first quarter of 2000 were $4.3 million, a 91% increase over fourth quarter 1999 revenues of $2.2 million. As of March 31, 2000, the Company had a backlog from contracts amounting to approximately $22 million that will be recognized as revenue over future quarters.

"Our strong Q1 2000 results once again illustrate the power of Commtouch," said Gideon Mantel, CEO of Commtouch. "The Commtouch value proposition--providing the best integrated messaging outsourcing services to a global market--is what separates Commtouch in the Internet space and what will continue to drive our revenue and profitability." Mantel added, "Our strategic partnerships and the release of Commtouch Wireless Services in Q1 has expanded both our global reach and our integrated product offerings and access points. Commtouch is strategically positioned today to build a Web-based global communications company."

Gross profit for the first quarter of 2000 was $2.2 million representing a gross profit margin of 50% compared to a gross profit margin of 30% for the fourth quarter of 1999.

Net loss for the quarter ended March 31, 2000, excluding amortization of the prepaid marketing asset resulting from warrants issued to Go2Net and Microsoft and stock-based employee deferred compensation, was $0.38 per share compared with a net loss, excluding charges, of $0.32 per share, in the fourth quarter of 1999.

Net loss for the quarter ended March 31, 2000 was $8.5 million compared to $7.4 million for the quarter ended December 31, 1999. Net loss per share for the quarter ended March 31, 2000, was $0.56 per share compared to net loss per share of $0.51 for the fourth quarter, 1999.

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About Commtouch

Commtouch is a leading global provider of outsourced integrated Web-based email and messaging solutions, currently serving more than 14 million individual active email boxes worldwide. Commtouch messaging solutions enable more than 300 global customers, including large and small corporations, service providers, portal and online companies, to outsource email and messaging operations.

Founded in 1991, Commtouch has offices in Silicon Valley, New York City, London and Tel Aviv. Additional Company information may be obtained by visiting www.commtouch.com.

This press release contains forward-looking statements, including projections about our business, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements in the future tense, and statements including words such as "expect", "plan", "estimate", anticipate", or "believe" are forward-looking statements. These statements are based on information available to us at the time of the release; we assume no obligation to update any of them. The statements in this release are not guarantees of future performance and actual results could differ materially from our current expectations as a result of numerous factors, including business conditions and growth in the Internet market; commerce and the general economy both domestic as well as international; fewer than expected new-partner relationships; competitive factors including pricing pressures; technological developments; and products offered by competitors; availability of qualified staff for expansion; and technological difficulties and resource constraints encountered in developing new products as well as those risks described in the Company's registration statement on Form F-1 filed with the SEC on March 6, 2000, as amended, which is available through www.sec.gov.

--More--

COMMTOUCH SOFTWARE LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2000	December 31, 1999
ASSETS		
Current Assets:		
Cash and short term investments	$ 73,728	$ 84,046
Trade receivables	3,779	2,378
Prepaid marketing expenses relating to Go2Net and Microsoft warrants	2,565	4,508
Prepaid expenses and other accounts receivable	3,019	1,648
Total current assets	83,091	92,580
Severance Pay Fund	484	354
Security Deposit	1,254	1,254
Investment - at Equity	3,000	--
Property and Equipment, net	8,146	6,148
	$ 95,975	$100,336
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 2,640	$ 1,510
Employees and payroll accruals	1,293	1,032
Deferred revenue	507	561
Other liabilities	2,282	1,424
Total current liabilities	6,722	4,527
Long-term Portion of Bank Loans and Capital Leases	40	44
Accrued Severance Pay	656	453
	696	497
Shareholders' Equity	88,557	95,312
	$ 95,975	$100,336

-MORE-

COMMTOUCH SOFTWARE LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999
Email Services - revenue	$ 4,272	$ 346
Cost of Email services - revenue	2,121	435
Gross profit/(loss)	2,151	(89)
Operating expenses:		
Research and development, net	1,993	340
Sales and marketing	4,746	608
General and administrative	2,106	617
Amortization of the prepaid marketing expenses relating to Go2Net and Microsoft warrants	1,941	--
Amortization of stock-based employee deferred compensation	763	386
Total operating expenses	11,549	1,951
Operating loss	(9,398)	(2,040)
Interest income (expense) and other, net	938	(271)
Net loss	$ (8,460)	$ (2,311)
Basic and diluted net loss per share	$($0.56)	$ (1.54)
Weighted average number of shares used in computing basic and diluted net loss per share	15,119	1,498
Net Loss - as adjusted (1)	$ (5,756)	$ (1,925)
Basic and diluted net loss per share - as adjusted (1)	$ (0.38)	$ (1.29)

(1) Excludes charges for amortization of stock-based employee compensation and Go2Net & Microsoft Warrants.