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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 001-36324

VARONIS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**57-1222280** **(I.R.S. Employer** **Identification No.)**
1250 Broadway, 31st Floor **New York, NY 10001** **(Address of principal executive offices)**	**10001** **(Zip Code)**

(877) 292-8767

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

At August 4, 2014, there were 24,496,389 shares of Common Stock, par value $0.001 per share, outstanding.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 120,128	$ 9,633
Short-term deposits	102	4,344
Restricted cash		171
Trade receivables (net of allowance for doubtful accounts of $ 178 at June 30, 2014 and $ 139 at December 31, 2013)	18,854	28,268
Prepaid expenses and other current assets	1,355	1,357
Total current assets	140,439	43,773
Long-term assets:		
Other assets	295	1,625
Property and equipment, net	2,610	1,856
Total long-term assets	2,905	3,481
Total assets	$ 143,344	$ 47,254
Liabilities, convertible preferred stock and stockholders equity (deficiency)		
Current liabilities:		
Trade payables	$ 2,300	$ 2,163
Accrued expenses and other liabilities	12,883	11,643
Deferred revenues	25,868	26,591
Total current liabilities	41,051	40,397
Long-term liabilities:		
Deferred revenues	2,146	2,109
Warrants to purchase convertible preferred stock		2,866
Severance pay	1,440	1,101
Other liabilities	15	14

Total long-term liabilities		3,601		6,090
Convertible preferred stock:				
Preferred A, B, C, D and E stock of $ 0.001 par value - Authorized: no shares at June 30, 2014 and 16,986,384 shares at December 31, 2013; Issued and outstanding: no shares at June 30, 2014 and 15,082,141 shares at December 31, 2013				43,775
Stockholders equity (deficiency):				
Share capital				
Common stock of $ 0.001 par value - Authorized: 200,000,000 shares at June 30, 2014 and 26,000,000 at December 31, 2013; Issued and outstanding: 24,456,389 shares at June 30, 2014 and 3,953,314 shares at December 31, 2013		24		4
Accumulated other comprehensive income		47		
Additional paid-in capital		159,087		4,741
Accumulated deficit		(60,466)		(47,753)
Total stockholders equity (deficiency)		98,692		(43,008)
Total liabilities, convertible preferred stock and stockholders equity (deficiency)	$	143,344	$	47,254

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

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UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Licenses	$ 14,422	$ 10,498	$ 22,475	$ 16,377
Maintenance and services	10,194	7,339	19,596	14,040
Total revenues	24,616	17,837	42,071	30,417
Cost of revenues	2,491	1,507	4,533	2,856
Gross profit	22,125	16,330	37,538	27,561
Operating costs and expenses:				
Research and development	6,832	4,875	13,271	9,394
Sales and marketing	17,186	10,500	31,427	19,708
General and administrative	2,665	2,220	5,330	3,759
Total operating expenses	26,683	17,595	50,028	32,861
Operating loss	(4,558)	(1,265)	(12,490)	(5,300)
Financial income (expenses) and other, net	74	(324)	36	(1,003)
Loss before income taxes	(4,484)	(1,589)	(12,454)	(6,303)
Income taxes	(155)	(47)	(259)	(124)
Net loss	$ (4,639)	$ (1,636)	$ (12,713)	$ (6,427)
Net loss per share of common stock, basic and diluted	$ (0.19)	$ (0.42)	$ (0.71)	$ (1.66)
Weighted average number of shares used in computing net loss per share of common stock, basic and diluted	24,455,259	3,876,073	17,843,306	3,863,960

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

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UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net loss	$ (4,639)	$ (1,636)	$ (12,713)	$ (6,427)
Other comprehensive income:				
Unrealized gains on derivative instruments	69		47	
Total other comprehensive income	69		47	
Comprehensive loss	$ (4,570)	$ (1,636)	$ (12,666)	$ (6,427)

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

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CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIENCY)

	Preferred stock		Common stock		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders equity (deficiency)
	Number	Amount	Number	Amount				
			(in thousands, except share data)					
Balance as of January 1, 2013	14,856,481	$ 37,959	3,848,293	$ 4	$ 2,826	$	$ (40,278)	$ (37,448)
Exercise of warrants to purchase Series D convertible preferred stock	225,660	5,816						
Stock-based compensation expense					1,788			1,788
Exercise of stock options			105,021	*)	127			127
Net loss							(7,475)	(7,475)
Balance as of December 31, 2013	15,082,141	43,775	3,953,314	4	4,741		(47,753)	(43,008)
Conversion of warrants to purchase common stock					2,866			2,866
Exercise of warrants to purchase common stock			107,217	*)				
Conversion of preferred stock to common stock upon initial public offering	(15,082,141)	(43,775)	15,082,141	15	43,760			43,775
Stock-based compensation expense					1,624			1,624
Exercise of stock options			13,281	*)	30			30
Issuance of common stock upon initial public offering (net			5,300,436	5	106,066			106,071

of issuance costs of $2,376)						
Unrealized gains on derivative instruments				47		47
Net loss					(12,713)	(12,713)
Balance as of June 30, 2014 (unaudited)	$ 24,456,389	$ 24	$ 159,087	$ 47	$ (60,466)	$ 98,692

*) Represents an amount lower than $ 1.

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

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net loss	$ (12,713)	$ (6,427)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	534	353
Stock-based compensation	1,624	616
Capital loss from disposal of fixed assets		5
Amortization of deferred charges related to long-term loan	31	131
Revaluation of fair value of warrants to convertible preferred stock		604
Changes in assets and liabilities:		
Trade receivables	9,414	5,701
Prepaid expenses and other current assets	18	407
Trade payables	137	(619)
Accrued expenses and other liabilities	721	(60)
Increase in severance pay, net	339	18
Deferred revenues	(686)	(650)
Other long term liabilities	1	(52)
Net cash provided by (used in) operating activities	(580)	27
Cash flows from investing activities:		
Decrease (increase) in short-term deposit	4,242	(1)
Decrease (increase) in long-term deposits	46	(17)
Decrease (increase) in restricted cash	260	(53)
Purchase of property and equipment	(1,288)	(629)
Net cash provided by (used in) investing activities	3,260	(700)
Cash flows from financing activities:		
Exercise of employee stock options	30	48
Payment of deferred equity offering cost	(662)	
Net proceeds from initial public offering	108,447	
Net cash provided by financing activities	107,815	48
Increase (decrease) in cash and cash equivalents	110,495	(625)

Cash and cash equivalents at beginning of period	9,633	14,470
Cash and cash equivalents at end of period	$ 120,128	$ 13,845
<u>Supplemental disclosure of non-cash flow information</u>:		
Conversion of preferred stock to common stock	43,775	
Conversion of liability warrants to equity	2,866	
Deferred offering costs not yet paid	519	
Deferred charges related to warrants granted to credit facilitator		$ 263
	$ 47,160	$ 263
<u>Supplemental disclosures of cash flow information</u>:		
Cash paid for income taxes	$ 46	$ 140

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. Varonis Systems, Inc. (VSI and together with its subsidiaries, collectively, the Company) was incorporated under the laws of the State of Delaware on November 3, 2004 and commenced operations on January 1, 2005.

VSI has five wholly-owned subsidiaries: Varonis Systems Ltd. (VSL) incorporated under the laws of Israel on November 24, 2004; Varonis UK (VSUK) incorporated under the laws of England on March 14, 2007; Varonis Systems (Deutschland) GmbH (VSG) incorporated under the laws of Germany on July 6, 2011; Varonis France SAS (VSF) incorporated under the laws of France on February 22, 2012; and Varonis Systems Corp. (VSC) incorporated under the laws of British Columbia, Canada on February 19, 2013.

The Company s software products and services allow enterprises to map, analyze, manage and migrate their unstructured data. The Company specializes in human-generated data, a type of unstructured data that includes an enterprise s word processing documents, spreadsheets, presentations, audio files, video files, emails, text messages, and any other data created by employees. Through its products the DatAdvantage platform, DataPrivilege, IDU Classification Framework, DatAnywhere and Data Transport Engine (collectively, the Products), the software platform allows enterprises to realize the value of their human-generated data in ways that are not resource-intensive and easy to implement.

VSI markets and sells products and services mainly in the United States. VSUK, VSG, VSF and VSC resell the Company s products and services mainly in the UK, Germany, rest of Europe and Canada, respectively. The Company primarily sells its products and services to a global network of distributors and Value Added Resellers (VARs), which sell the products to end users customers.

The Company had a stockholders equity (deficiency) of $98,692 (unaudited) and ($43,008) as of June 30, 2014 and December 31, 2013, respectively. The stockholders deficiency as of December 31, 2013, resulted from its preferred stock not being classified as equity. The preferred stock was only redeemable upon contingent events that were not probable. On March 5, 2014, the preferred stock was converted into common stock and therefore classified as equity (See Note 1b).

b. Initial Public Offering:

On March 5, 2014, the Company closed its initial public offering (IPO) whereby 5,300,436 shares of common stock were sold by the Company to the public (inclusive of 500,436 shares of common stock pursuant to the full exercise of an overallotment option granted to the underwriters). The aggregate net proceeds received by the Company from the offering were approximately $106,071, net of underwriting discounts and commissions and offering expenses payable by the Company. Upon the closing of the IPO, all shares of the Company s outstanding convertible preferred stock automatically converted into 15,082,141 shares of common stock, and outstanding warrants to purchase convertible preferred stock automatically converted into warrants to purchase 122,572 shares of common stock. On March 13, 2014, all such warrants were exercised, in a net share settlement, resulting in the issuance of 107,217 shares of common stock.

c. The significant accounting policies applied in the Company s audited annual consolidated financial statements as of December 31, 2013 are applied consistently in these financial statements.

d. Basis of Presentation:

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with Article 10 of Regulation S-X, Interim Financial Statements and the rules and regulations for Form 10-Q of the Securities and Exchange Commission (the SEC). Pursuant to those rules and regulations, the Company has condensed or omitted certain information and footnote disclosure it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP).

In management s opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its consolidated financial position, results of operations and cash flows. The Company s interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the 2013 consolidated financial statements and notes thereto included in the prospectus filed with the SEC on March 3, 2014 (the Prospectus) pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the Securities Act). There have been no changes in the significant accounting policies from those that were disclosed in the audited consolidated financial statements for the fiscal year ended December 31, 2013 included in the Prospectus.

e. Derivative Instruments:

The Company s primary objective for holding derivative instruments is to reduce its exposure to foreign currency rate changes. The Company reduces its exposure by entering into forward foreign exchange contracts with respect to operating expenses that are forecast to be incurred in currencies other than U.S. dollars. A majority of the Company s revenues and a majority of its operating expenditures are transacted in U.S. dollars. However, certain operating expenditures are incurred in or exposed to other currencies, primarily the New Israeli Shekel (NIS).

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The Company has established forecasted transaction currency risk management programs to protect against fluctuations in fair value and the volatility of future cash flows caused by changes in exchange rates. The Company s currency risk management program includes forward foreign exchange contracts designated as cash flow hedges. These forward foreign exchange contracts generally mature within 12 months. The Company does not enter into derivative financial instruments for trading purposes.

Derivative instruments measured at fair value and their classification on the consolidated balance sheets are presented in the following tables (in thousands):

	Assets as of June 30, 2014(*)	
	Notional Amount	**Fair Value**
Foreign Exchange Forward Contract Derivatives in cash flow hedging relationships - included in other current assets	$ 14,798	$ 47

(*) The Company had no derivative instruments as of December 31, 2013.

f. Recently Issued Accounting Pronouncement:

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and US GAAP. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. ASU 2014-09 will be effective for the Company in the first quarter of fiscal 2017 and may be applied on a full retrospective or modified retrospective approach. The Company is still evaluating the impact of implementation of this standard on its financial statements.

NOTE 2:- FAIR VALUE MEASUREMENTS

The Company evaluates assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level to classify them for each reporting period. There have been no transfers between fair value measurements levels during the six months ended June 30, 2014.

The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level. The following are the hierarchical levels of inputs to measure fair value:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs that reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs reflecting our own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The following table sets forth the Company s assets and liabilities that were measured at fair value as of June 30, 2014 by level within the fair value hierarchy (in thousands):

	As of June 30, 2014 (unaudited)			
	Level I	**Level II**	**Level III**	**Fair Value**
Financial Assets:				
Forward foreign exchange contracts		47		47
Total financial assets	$	$ 47	$	$ 47

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NOTE 3:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Liens:

The Company has several liens granted to financial institutions mainly to secure various operating lease agreements in connection with its office space.

b. Lease Commitments:

The Company rents its facilities in all locations under operating leases with lease periods expiring from 2014 - 2026. VSL leases cars for its employees under operating lease agreements expiring at various dates from 2014 2017.

Aggregate minimum rental commitments under non-cancelable leases as of June 30, 2014 for the upcoming years were as follows:

	Unaudited
2014	$ 1,313
2015	1,962
2016	3,396
2017	2,649
2018	2,675
Thereafter	20,168
	$ 32,163

Total rent expenses for the period ended June 30, 2014 and the year ended December 31, 2013 were approximately $ 1,007 and $ 1,636, respectively.

On June 18, 2014, the Company entered into an amendment of the existing lease for its New York headquarters. Pursuant to the lease amendment, the Company is leasing two more floors in addition to the floor that it already leased in such building. The lease began on June 18, 2014 for one of the additional floors and will begin for the other floor upon the completion of construction work on such floor. The initial term of the lease was extended until February 26, 2026, and the Company has an option to extend the lease for an additional five years.

c. On March 31, 2014, the Company entered into a promissory note and related security documents with Bank Leumi USA allowing the Company to borrow up to $7,000 against certain of its accounts receivable outstanding amount, based on several conditions, at an annual interest rate of the Wall Street Journal Prime Rate less 0.15%. As of June 30, 2014 that rate amounted to 3.1%. This promissory note enables the Company to engage in foreign currency hedging transactions with Bank Leumi USA to manage the Company s exposure to foreign currency risk without restricted cash requirements. Amounts may be borrowed under the promissory note until March 31, 2015 at which time the principal sum of each such loan, together with accrued and unpaid interest payable, will become due and payable. As of June 30, 2014, the

Company did not borrow any amounts under the promissory note, and, as such, no interest expense has been recorded.

NOTE 4: STOCKHOLDERS EQUITY (DEFICIENCY)

a. On December 30, 2005, the Company s board of directors adopted the Varonis Systems, Inc. 2005 Stock Plan (the 2005 Stock Plan). As of December 31, 2013, the Company had reserved 4,713,319 shares of common stock available for issuance to employees, directors, officers and consultants of the Company and its subsidiaries. As of December 31, 2013, the Company granted options with respect to 4,656,855 shares of common stock under the 2005 Stock Plan. The options generally vest over four years. No awards were granted under the 2005 Stock Plan subsequent to December 31, 2013, and no further awards will be granted under the 2005 Stock Plan.

On November 14, 2013, the Company s board of directors adopted the Varonis Systems, Inc. 2013 Omnibus Equity Incentive Plan (the 2013 Plan). As of June 30, 2014, the Company had reserved 1,904,633 shares of common stock available for issuance under the 2013 Plan to employees, directors, officers and consultants of the Company and its subsidiaries. The number of shares of common stock available for issuance under the 2013 Plan will be increased on January 1, 2016 and on each January 1 thereafter by four percent (4%) of the number of shares of common stock issued and outstanding on each December 31 immediately prior to the date of increase (rounded down to the nearest whole share), but the amount of each increase will be limited to the number of shares of common stock necessary to bring the total number of shares of Common Stock available for grant and issuance

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under the 2013 Plan to five percent (5%) of the number of shares of common stock issued and outstanding on each December 31. Options granted under the 2013 Plan generally vest over four years. Any award that is forfeited or canceled before expiration becomes available for future grants under the 2013 Plan.

A summary of employees stock options activities during the six months ended June 30, 2014 is as follows:

	Six Months Ended June 30, 2014 (unaudited)			
	Number	**Average exercise price**	**Aggregate intrinsic value (in thousands)**	**Average remaining contractual life (years)**
Options outstanding at the beginning of the year	3,233,235	$ 4.033	$ 65,723	5.700
Granted	516,940	$ 29.422		
Exercised	(12,594)	$ 1.985		
Forfeited	(21,929)	$ 17.290		
Options outstanding at the end of the period	3,715,652	$ 7.493	$ 82,249	5.824
Vested and expected to vest	3,634,396	$ 7.148	$ 81,560	5.745
Options exercisable at the end of the period	2,682,549	$ 1.948	$ 72,596	4.508

The aggregate intrinsic value in the table above represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on the last date of the exercise period. Total intrinsic value of options exercised for the six month period ended June 30, 2014 was $282. As of June 30, 2014 there was $13,229 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2005 Stock Plan and 2013 Plan. This cost is expected to be recognized over a period of approximately 3.3 years.

b. The options outstanding as of June 30, 2014 (unaudited) have been separated into ranges of exercise price as follows:

Range of exercise price	**Options outstanding as of June 30, 2014**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable as of June 30, 2014**	**Weighted average remaining contractual life**	**Weighted average exercise price of options exercisable**

		(years)				**(years)**		
$ 0.070 - 0.901	758,047	2.871	$	0.744	758,047	2.871	$	0.744
$ 1.039 - 1.576	1,671,942	4.710	$	1.260	1,663,059	4.702	$	1.258
$ 6.230 - 8.800	180,773	7.382	$	6.713	121,081	7.303	$	6.758
$12.470	433,950	8.677	$	12.470	140,362	8.644	$	12.470
$21.14 - 24.23	459,090	9.640	$	22.000			$	
$39.86	211,850	9.732	$	39.860			$	
	3,715,652	5.824	$	7.493	2,682,549	4.508	$	1.948

c. The fair value of stock option grants for the period ended June 30, 2014 was estimated using the following weighted average assumptions:

	Period Ended June 30, 2014 Unaudited
Expected dividend yield	0%
Expected volatility	60%
Risk-free interest rate	2.21%
Expected term (years)	6.25

d. Options issued to consultants:

The Company s outstanding options granted to consultants for sales and pre-marketing services as of June 30, 2014 (unaudited) were as follows:

	Options for shares of common stock (number)	Exercise price per share	Options exercisable (number)	Exercisable through
December 2006	40,090	$ 0.901	40,090	December 2016
February 2013	4,000	$ 12.470	1,333	February 2023
August 2013	5,000	$ 21.140		August 2023
October 2013	1,250	$ 24.230		October 2023
March 2014	18,350	$ 39.860		March 2024
May 2014	8,700	$ 22.010		May 2024
	77,390		41,423	

e. Stock-based compensation expense for employees and consultants:

The Company recognized non-cash stock-based compensation expense in the consolidated statements of operations as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
	(In thousands)		(In thousands)	
Cost of revenues	$ 46	$ 5	$ 66	$ 11
Research and development	272	126	471	185
Sales and marketing	519	199	859	265
General and administrative	141	92	228	155
Total	$ 978	$ 422	$ 1,624	$ 616

NOTE 5:- GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER AND PRODUCT DATA

Summary information about geographic areas:

ASC 280, Segment Reporting, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company manages its business on the basis of one reportable segment and derives revenues from licensing of software, sale of professional services, maintenance and technical support (see Note 1 for a brief description of the Company s business). The following is a summary of revenues within geographic areas:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues based on customer s location:				
United States	$ 14,814	$ 10,766	$ 23,884	$ 17,293
EMEA	7,605	5,382	14,548	10,287
Rest of the World	2,197	1,689	3,639	2,837
Total revenues	$ 24,616	$ 17,837	$ 42,071	$ 30,417

	June 30, 2014 Unaudited	December 31, 2013 Audited
	(In thousands)	
Long-lived assets by geographic region:		
United States	$ 918	$ 777
Israel	1,606	956
Other	86	123
	$ 2,610	$ 1,856

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NOTE 6:- SUBSEQUENT EVENTS

The Company evaluates events or transactions that occur after the balance sheet date but prior to the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For its consolidated financial statements as of June 30, 2014, the Company evaluated subsequent events through August 6, 2014, which is the date the financial statements were issued.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Prospectus filed pursuant to Rule 424(b) under the Securities Act, with the SEC on March 3, 2014.

Special Note Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estima expect, intend, may, plan, project, seek, should, strategy, target, will, would and similar expres intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled Risk Factors included under Part II, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We provide an innovative software platform that allows enterprises to map, analyze, manage and migrate their unstructured data. We specialize in human-generated data, a type of unstructured data that includes an enterprise s word processing documents, spreadsheets, presentations, audio files, video files, emails, text messages and any other data created by employees. This data contains an enterprise s financial information, product plans, strategic initiatives, intellectual property and other forms of vital information. Our proprietary Metadata Framework technology enables enterprises to gain actionable insights from their human-generated data by intelligently extracting critical metadata, or data about data, from an organization s IT infrastructure and constructing a map of functional relationships among employees, data objects, content and usage through this contextual information.

We have been a pioneer in developing a software platform that allows enterprises to realize the value of their human-generated data in ways that are not resource-intensive and are easy to implement. The revolution in internet search occurred when search engines began to mine internet metadata, such as the links between pages, in addition to page content, thereby making the internet s content more usable and subsequently valuable. Similarly, our Metadata Framework creates advanced searchable data structures and provides real-time intelligence about an enterprise s massive volumes of human-generated content, making human-generated data more valuable to the organization. IT and business personnel deploy our software for a variety of use cases, including data governance, data security, archiving, file synchronization, enhanced mobile data accessibility and information collaboration.

We started operations in 2005 with a vision to make enterprise human-generated data more accessible, manageable, secure and actionable. We began offering our flagship product, DatAdvantage, which provides centralized visibility for all of an enterprise s human-generated data, in 2006. Since then we have continued to invest in innovation and have consistently introduced new products to our customers, including DataPrivilege, which was introduced in 2006, as our self-service web portal for business users. In 2009, we introduced the IDU Classification Framework for sensitive data classification and DatAdvantage for SharePoint. We further enhanced our DatAdvantage offering by releasing DatAdvantage for Exchange governance in 2010 which enabled our customers to exercise control over the information being transferred through corporate e-mails. In 2011, we introduced DatAdvantage for Directory Services for increased visibility into Active Directory. More recently in 2012, we released the Data Transport Engine for intelligent data migration and archiving and DatAnywhere for secure hybrid cloud collaboration. In May 2014, we introduced DatAnswers, a secure enterprise search solution for human generated data that delivers highly relevant search results to enterprise employees, greatly improving their productivity.

At the core of our technology is our ability to intelligently extract and analyze metadata from an enterprise s vast, distributed data stores. The broad applicability of our technology has resulted in our customers deploying our platform for numerous use cases for both IT and business personnel. We currently have six products (including DatAnswers), and as of June 30, 2014, approximately 40% of our customers had purchased two or more products, one of which was DatAdvantage for all of these customers. We believe our existing customer base serves as a strong source of incremental revenues given the broad platform of products we have and the growing volumes and complexity of human-generated data our customers have. Our maintenance renewal rate for the period ended June 30, 2014 and 2013 was over 90%. Our key strategies to maintain our renewal rate include focusing on the quality and reliability of our customer service and support to ensure our customers receive value from our products, providing consistent software upgrades and having more dedicated renewal sales personnel.

We sell the vast majority of our products and services to channel partners, including distributors and resellers, which sell to end-user customers, which we refer to as our customers. We believe that our sales model, which combines the leverage of a channel sales model with our highly trained and professional sales force, has and will continue to play a major role in our ability to grow and to successfully deliver our unique value proposition for enterprise human-generated data. We target customers of all sizes, in all industries and all geographies. As of June 30, 2014, we had approximately 2,750 customers, spanning leading firms in the financial services, public, healthcare, industrial, energy and utilities, technology, consumer and retail, education and media and entertainment sectors. We believe our customer count is a key indicator of our market penetration and the value that our products bring to our customer base. We also believe our existing customers represent significant future revenue opportunities for us.

We believe there is a significant growth opportunity in both domestic and foreign markets, which could include any organization that uses file shares, intranets and email for collaboration, regardless of region. For the three and six months ended June 30, 2014 approximately 60% and 57%, respectively, of our revenues were derived from the United States, while Europe, the Middle East and Africa accounted for approximately 31% and 35%, respectively. While we expect sales in the United States to continue to account for a majority of revenues in the near- and medium- term, we expect sales in Asia-Pacific and Latin America to account for a larger proportion of revenues in the long-term. We expect both continued sales growth in the United States and international expansion to be key components of our growth strategy, and we will continue to market our products and services aggressively in international markets. We plan to continue to expand our international operations as part of our growth strategy. In particular, we expect to expand our operations in Latin America and Asia. The expansion of our international operations depends in particular on our ability to hire, integrate and retain local sales and marketing personnel in these international markets, acquire new channel partners and implement an effective marketing strategy. In addition, the further expansion of our international operations will increase our sales and marketing and general and administrative expenses, and will subject us to a variety of risks and challenges, including those related to economic and political conditions in each region, compliance with foreign laws and regulations, and compliance with domestic laws and regulations applicable to our international operations.

We derive revenues from license sales of our various products, various services, including initial maintenance contracts and professional services, and renewals. Substantially all of our license sales are derived from a platform of products, consisting of DatAdvantage, DataPrivilege, IDU Classification Framework and Data Transport Engine. As of June 30, 2014 and 2013, 95.5% and 98.5% of our customers, respectively, had purchased DatAdvantage; 19.7% and 21.7% of our customers, respectively, had purchased DataPrivilege; 24.4% and 21.4% of our customers, respectively, had purchased IDU Classification Framework; and 2.2% and 0.6% of our customers, respectively, had purchased Data Transport Engine. As of June 30, 2014 and 2013, 55.5% and 61.1% of our customers, respectively, made standalone purchases of DatAdvantage, and 0.4% of our customers made standalone purchases of DataPrivilege. As of June 30, 2014, our customers made no standalone purchases of IDU Classification Framework or Data Transport Engine. Licenses sales accounted for 58.6% and 58.9% of our total revenues for the three month periods ended June 30, 2014 and 2013, respectively, and 53.4% and 53.8% of our total revenues for the six month periods ended June 30, 2014 and 2013, respectively. We expect maintenance and services revenues to continue to comprise a larger portion of our total revenues as our installed customer base grows.

We have achieved significant growth and scale in recent periods utilizing our business model. For the three month periods ended June 30, 2014 and 2013, our revenues were $ 24.6 million and $17.8 million, respectively, representing year-over-year growth of 38%. For the six month periods ended June 30, 2014 and 2013, our revenues were $ 42.1 million and $30.4 million, respectively, representing year-over-year growth of 38%. For the three month periods ended June 30, 2014 and 2013, we had operating losses of $4.6 million and $1.3 million and net losses of $4.6 million and $1.6 million, respectively. For the six month periods ended June 30, 2014 and 2013, we had operating losses of $12.5 million and $5.3 million and net losses of $12.7 million and $6.4 million, respectively.

Components of Operating Results

Revenues

Our revenues consist of licenses and maintenance and services revenues.

Licenses Revenues. License revenues reflect the revenues recognized from sales of software licenses to new customers and additional licenses to existing customers. A substantial majority of our license revenues consist of revenues from perpetual licenses, under which we generally recognize the license fee portion of the arrangement upon delivery, assuming all revenue recognition criteria are satisfied. Customers may also purchase term license agreements, under which we recognize the license fee ratably, on a straight-line basis, over the term of the underlying maintenance contract, which is typically up to one year. We are focused on acquiring new customers and increasing revenues from our existing customers.

Maintenance and Services Revenues. Maintenance and services revenues consist of revenues from maintenance agreements and, to a lesser extent, professional services. Typically, when purchasing a perpetual license, a customer also purchases a one year maintenance contract for which we charge a percentage of the license fee. Customers may renew, and generally have renewed, their maintenance agreements for a fee that is based upon a percentage of the initial license fee paid. Customers with maintenance agreements are entitled to receive support and unspecified upgrades and enhancements when and if they become available during the maintenance period. We have experienced growth in maintenance revenues primarily due to increased license sales to new customers and high annual retention of existing customers. We recognize the revenues associated with maintenance ratably, on a straight-line basis, over the associated maintenance period. We measure the perpetual license maintenance renewal rate for our customers over a 12-month period, based on a dollar renewal rate for contracts expiring during that time period. Our maintenance renewal rate for each of the periods ended June 30, 2014 and 2013 has been over 90%. We also offer professional services focused on both deployment and training our customers to fully leverage the use of our products. We recognize the revenues associated with these professional services on a time and materials basis as we deliver the services, provide the training or when the service term has expired.

The following table sets forth the percentage of our revenues that have been derived from licenses and maintenance and services revenues for the periods presented.

	Three Months Ended June 30,	
	2014	**2013**
	(As a percentage of total revenues)	
Revenues:		
Licenses	58.6%	58.9%
Maintenance and services	41.4	41.1
Total revenues	100.0%	100.0%

We expect maintenance and services revenues to continue to comprise a larger portion of our total revenues as our installed customer base grows. Our products are used by a wide range of enterprises, including Fortune 500 corporations and small and medium-sized businesses. As of June 30, 2014, we had approximately 2,750 customers across a broad array of company sizes and industries located in over 55 countries.

Cost of Revenues, Gross Profit and Gross Margin

Our cost of revenues consists of cost of maintenance and services revenues. Cost of maintenance and services revenues consists primarily of salaries and benefits, as well as commissions, bonuses and stock-based compensation for our maintenance and services employees, travel expenses and allocated overhead costs for facilities, IT and depreciation of equipment. We recognize expenses related to maintenance and services as they are incurred. We expect that our cost of maintenance and services revenues will increase in absolute dollars as we increase our headcount to support revenue growth.

Gross profit is total revenues less total cost of revenues. Gross margin is gross profit expressed as a percentage of total revenues. Our gross margin has historically fluctuated slightly from period to period as a result of changes in licenses and maintenance and services mix. Due to the seasonality of our business, the first quarter typically results in the lowest gross margin as revenues have historically been lowest and the majority of our expenses are relatively fixed quarter over quarter.

Operating Costs and Expenses

Our operating costs and expenses are classified into three categories: research and development, sales and marketing and general and administrative. For each category, the largest component is personnel costs, which consists of salaries, employee benefits (including commissions and bonuses) and stock-based compensation. Operating costs and expenses also include allocated overhead costs for depreciation of equipment. Allocated costs for facilities primarily consist of rent and office maintenance. Operating costs and expenses are generally recognized as incurred. We expect personnel costs to continue to increase in absolute dollars as we hire new employees to continue to grow our business.

Research and Development. Research and development expenses primarily consist of personnel costs attributable to our research and development personnel, as well as allocated overhead costs. We expense research and development costs as incurred. We expect that our research and development expenses will continue to increase in absolute dollars as we increase our research and development headcount to further strengthen our technology platform and invest in the development of both existing and new products.

Sales and Marketing. Sales and marketing expenses are the largest component of our operating costs and expenses and consists primarily of personnel costs, as well as marketing and business development costs, travel expenses and allocated overhead costs. We expect that sales and marketing expenses will continue to increase in absolute dollars, as we plan to expand our sales and marketing efforts, both domestically and internationally. We expect sales and marketing expenses to be our largest category of operating costs and expenses as we continue to expand our business worldwide.

*General and Administrativ*e. General and administrative expenses mostly consist of personnel and facility-related costs for our executive, finance, legal, human resources and administrative personnel. Other expenses are comprised of legal, accounting and other consultant fees and other corporate expenses and allocated overhead. We expect that general and administrative expenses will increase in absolute dollars as we grow and expand our operations, including internationally, and operate as a public company, including higher legal, corporate insurance, accounting expenses and additional expenses for compliance with the Sarbanes-Oxley Act of 2002 and other related regulations.

Financial Income (Expenses), Net

Prior to our IPO, financial income (expenses), net consisted primarily of charges to record outstanding warrants to purchase convertible preferred stock at fair value, interest earned on our cash, cash equivalents and short-term deposits and interest expense associated with our previously outstanding debt, foreign currency forward contract gains and losses, as well as foreign currency exchange gains and losses. Following the closing of our IPO during the first quarter of 2014, our outstanding warrants to purchase convertible preferred stock automatically converted into warrants to purchase shares of common stock and, after such conversion, are no longer classified as a liability on our consolidated balance sheet or included as financial expenses in our consolidated statement of operations.

Income Taxes

We operate in several tax jurisdictions and are subject to taxes in each country or jurisdiction in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may be subject to U.S. income tax. To date, we have incurred accumulated net losses and have not recorded any U.S. federal tax provisions.

Because of our history of U.S. net operating losses, we have established a full valuation allowance against potential future benefits for deferred tax assets including loss carryforwards. Our income tax provision could be significantly impacted by estimates surrounding our uncertain tax positions and changes to our valuation allowance in future periods. We reevaluate the judgments surrounding our estimates and make adjustments as appropriate each reporting period.

Our Israeli subsidiary currently qualifies as a beneficiary enterprise which, upon fulfillment of certain conditions, allows it to qualify for a reduced tax rate based on the beneficiary program guidelines.

In addition, we are subject to the continuous examinations of our income tax returns by different tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

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Results of Operations

The following tables are a summary of our consolidated statements of operations for the three months ended June 30, 2014 and 2013 in dollars and as a percentage of our total revenues.

	Three Months Ended June 30,	
	2014	2013
	(unaudited) (In thousands)	
Statement of Operations Data:		
Revenues:		
Licenses	$ 14,422	$ 10,498
Maintenance and services	10,194	7,339
Total revenues	24,616	17,837
Cost of revenues	2,491	1,507
Gross profit	22,125	16,330
Operating costs and expenses:		
Research and development	6,832	4,875
Sales and marketing	17,186	10,500
General and administrative	2,665	2,220
Total operating expenses	26,683	17,595
Operating loss	(4,558)	(1,265)
Financial income (expenses), net	74	(324)
Loss before income taxes, net	(4,484)	(1,589)
Income taxes	(155)	(47)
Net loss	$ (4,639)	$ (1,636)

	Three Months Ended June 30,	
	2014	2013

	(As a percentage of total revenues)	
Statement of Operations Data:		
Revenues:		
Licenses	58.6%	58.9%
Maintenance and services	41.4	41.1
Total revenues	100.0	100.0
Cost of revenues	10.1	8.4
Gross profit	89.9	91.6
Operating costs and expenses:		
Research and development	27.8	27.3
Sales and marketing	69.8	58.9
General and administrative	10.8	12.4
Total operating expenses	108.4	98.6
Operating loss	(18.5)	(7.1)
Financial income (expenses), net	0.3	(1.8)
Loss before income taxes, net	(18.2)	(8.9)
Income taxes	(0.6)	(0.3)
Net loss	(18.8)%	(9.2)%

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Comparison of Three Months Ended June 30, 2014 and 2013

Revenues

	Three Months Ended June 30, 2014	2013	% Change
	(unaudited) (In thousands)		
Revenues:			
Licenses	$ 14,422	$ 10,498	37.4%
Maintenance and services	10,194	7,339	38.9
Total revenues	$ 24,616	$ 17,837	38.0%

	Three Months Ended June 30, 2014	2013
	(As a percentage of total revenues)	
Revenues:		
Licenses	58.6%	58.9%
Maintenance and services	41.4	41.1
Total revenues	100.0%	100.0%

Total revenue growth was achieved due to increased demand for our products and services from new and existing customers, mostly in the domestic market, as well as in international markets. The increase in license revenues was driven by sales to 206 new customers in the three month period ended June 30, 2014 compared to 149 new customers in the three month period ended June 30, 2013, sales to existing customers and sales of new products. As of June 30, 2014 and 2013, we had approximately 2,750 and over 2,000 customers, respectively. A substantial majority of our license revenues was attributable to sales of perpetual licenses. The increase in maintenance and services revenues was primarily due to an increase in the sale of maintenance agreements resulting from the growth of our installed customer base. Of the license and first year maintenance and services revenues recognized in the three months ended June 30, 2014, 62% was attributable to revenues from new customers, and 38% was attributable to revenues from existing customers. Of the license and first year maintenance and services revenues recognized in the three months ended June 30, 2013, 65% was attributable to revenues from new customers, and 35% was attributable to revenues from existing customers. As of June 30, 2014 and 2013, 40% and 37%, respectively, of our customers had purchased two or more products.

In each of the three months ended June 30, 2014 and 2013, our maintenance renewal rate was over 90%.

Cost of Revenues and Gross Margin

	Three Months Ended June 30, 2014	2013	% Change
	(unaudited) (In thousands)		
Cost of revenues	$ 2,491	$ 1,507	65.3%

	Three Months Ended June 30, 2014	2013
	(As a percentage of total revenues)	
Total gross margin	89.9%	91.6%

The increase in cost of revenues was primarily related to an increase of $0.6 million in salaries and benefits expense due to increased headcount for support and professional services, a $0.2 million increase in facilities and allocated overhead costs and a $0.1 million increase in other related expenses due to the increased headcount.

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Operating Costs and Expenses

	Three Months Ended June 30, 2014	2013	% Change
	(unaudited) (In thousands)		
Operating costs and expenses:			
Research and development	$ 6,832	$ 4,875	40.1%
Sales and marketing	17,186	10,500	63.7
General and administrative	2,665	2,220	20.0
Total operating expenses	$ 26,683	$ 17,595	51.7%

	Three Months Ended June 30, 2014	2013
	(As a percentage of total revenues)	
Operating costs and expenses:		
Research and development	27.8%	27.3%
Sales and marketing	69.8	58.9
General and administrative	10.8	12.4
Total operating expenses	108.4%	98.6%

The increase in research and development expenses was primarily related to an increase of $1.8 million in salaries and benefits and stock based compensation resulting from increased headcount and consultants as part of our focus on enhancing and developing our existing and new products.

The increase in sales and marketing expenses was primarily related to a $5.0 million increase in salaries and benefits and stock based compensation due to increased headcount in all regions to expand our sales force and commissions on increased customer orders. The remainder of the increase was attributable to a $0.4 million increase in marketing related expenses and a $0.4 million increase related to travel expenses.

The increase in general and administrative expenses was primarily related to an increase of $0.3 million in salaries and benefits, due to increased headcount to support the overall growth of our business and $0.1 million of other expenses primarily relating to rent, insurance and IT expenses.

Financial Income (Expenses), Net

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	% Change
	(unaudited) (In thousands)		
Financial income (expenses), net	$ 74	$ (324)	122.8%

For the three months ended June 30, 2013, financial income (expense), net was primarily comprised of revaluation of our warrants to purchase convertible preferred stock. Upon completion of our IPO, the warrants automatically converted into warrants to purchase our common stock and, as a result, are no longer evaluated at each balance sheet date. As such, financial income (expense), net for the three months ended June 30, 2014 was primarily comprised of foreign exchange gains and interest income.

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Income Taxes

	Three Months Ended June 30,		
	2014	2013	% Change
	(unaudited) (In thousands)		
Income taxes	$ (155)	$ (47)	229.8%

Income taxes for the three months ended June 30, 2014 and 2013 were comprised primarily of foreign income taxes and state taxes.

The following tables are a summary of our consolidated statements of operations for the six months ended June 30, 2014 and 2013 in dollars and as a percentage of our total revenues.

	Six Months Ended June 30,	
	2014	2013
	(unaudited) (In thousands)	
Statement of Operations Data:		
Revenues:		
Licenses	$ 22,475	$ 16,377
Maintenance and services	19,596	14,040
Total revenues	42,071	30,417
Cost of revenues	4,533	2,856
Gross profit	37,538	27,561
Operating costs and expenses:		
Research and development	13,271	9,394
Sales and marketing	31,427	19,708
General and administrative	5,330	3,759
Total operating expenses	50,028	32,861
Operating loss	(12,490)	(5,300)
Financial income (expenses), net	36	(1,003)
Loss before income taxes, net	(12,454)	(6,303)

Income taxes	(259)	(124)
Net loss	$ (12,713)	$ (6,427)

	Six Months Ended June 30, 2014	2013
	(As a percentage of total revenues)	
Statement of Operations Data:		
Revenues:		
Licenses	53.4%	53.8%
Maintenance and services	46.6	46.2