VARONIS SYSTEMS INC
Form S-1/A
February 06, 2014

Table of Contents

As filed with the Securities and Exchange Commission on February 6, 2014

Registration No. 333-191840

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

VARONIS SYSTEMS, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**7372**	**57-1222280**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

1250 Broadway, 31st Floor

New York, NY 10001

(877) 292-8767

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Yakov Faitelson

Chief Executive Officer and President

Varonis Systems, Inc.

1250 Broadway, 31st Floor

New York, NY 10001

(877) 292-8767

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

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, 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, 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. ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee(3)**
Common Stock, par value $0.001 per share	$100,000,000	$12,880

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.
(2) Includes offering price of shares that the underwriters have the option to purchase.
(3) Previously paid.

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.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. We and the selling stockholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we and the selling stockholder are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued , 2014

Shares

COMMON STOCK

Varonis Systems, Inc. is offering shares of common stock.

This is our initial public offering, and no public market currently exists for our shares. We anticipate that the initial public offering price will be between $ and $ per share.

We have applied to list the common stock on The Nasdaq Global Select Market under the symbol VRNS.

We are an emerging growth company under applicable Securities and Exchange Commission rules and will be subject to reduced public company reporting requirements. Investing in our common stock involves risks. See Risk Factors beginning on page 12.

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds to Us***	***Proceeds to Selling Stockholder***
Per Share	*$*	*$*	*$*	*$*
Total	*$*	*$*	*$*	*$*

See Underwriting for a description of the compensation payable to the underwriters.

We and a selling stockholder have granted the underwriters the right to purchase up to an additional shares of common stock at the initial public offering price less the underwriting discounts and commissions. We will not receive any proceeds from the sale of shares by the selling stockholder.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on , 2014.

MORGAN STANLEY *BARCLAYS* *JEFFERIES*

RBC CAPITAL MARKETS

NEEDHAM & COMPANY

, 2014

Table of Contents

Table of Contents

Table of Contents

TABLE OF CONTENTS

We, the selling stockholder and underwriters have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus, any amendment or supplement to this prospectus or in any free writing prospectuses we have prepared. We, the selling stockholder and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. Neither the delivery of this prospectus nor the sale of our common stock means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing, you should carefully read this entire prospectus, including our consolidated financial statements and the information set forth under the sections Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and Special Note Regarding Forward-Looking Statements. Unless the context requires otherwise, the words we, us, our and Varonis refer to Varonis Systems, Inc. and its subsidiaries.

VARONIS SYSTEMS, INC.

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 spreadsheets, word processing documents, presentations, audio files, video files, emails, text messages and any other data created by employees. This data often contains an enterprise s financial information, product plans, strategic initiatives, intellectual property and numerous other forms of vital information. Our Metadata Framework is a proprietary technology platform that extracts critical metadata, or data about data, from an enterprise s IT infrastructure and uses this contextual information to map functional relationships among employees, data objects, content and usage. 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.

In today s information-based economy, enterprises must share, protect and manage their vital information assets; however, the rapid growth in data volume and complexity is making it significantly harder for enterprises to do so. The December 2012 International Data Corporation (IDC) Digital Universe Study, which we refer to as the IDC Study, estimates that the amount of digital information created and replicated will grow at a compound annual growth rate of 39% from 2012 through 2020, and more than 90% of the data created in the next decade will be unstructured data. We believe that unstructured data represents a critical business asset, and enterprises are increasingly seeking ways to maximize the value of this data, while simultaneously ensuring that the data is appropriately secured and managed. Despite the importance of their digital assets, most enterprises have difficulty tracking who has access to selected data, who is responsible for that data, and which employees are accessing, creating, manipulating or deleting it.

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 consequently more 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, to create more accessible, manageable and secure human-generated data.

We believe that the technology underlying our Metadata Framework is our primary competitive advantage. The strength of our solution is driven by several proprietary technologies and methodologies that we have developed, coupled with how we have seamlessly integrated them into our highly versatile Metadata Framework.

The broad applicability of our technology has resulted in our customers deploying our platform for numerous use cases. These use cases include: searchable logs of all human-generated data related activity; centralized visibility into the unstructured data of the enterprise; identification of sensitive data and monitoring its security, ownership and usage, thereby reducing potential exposures; identification of and tracking data ownership; business productivity enhancement through self-service data management; intelligent archiving and migration of data; creation of secure hybrid cloud functionalities; abnormal activity alerts and identification and security of high-risk data.

Table of Contents

We believe that the diverse functionalities offered by our platform positions us at the intersection of several powerful trends in the digital universe. The addressable markets for the functionalities delivered by our platform are many and include portions of the markets defined by IDC as business intelligence and analytics; data integration and access; collaborative applications; storage software; and identity and access management. IDC estimates that the aggregate total spend of these established markets in 2012 was approximately $45 billion. We believe that our comprehensive product offering will attract a meaningful portion of this overall spend, resulting in a multi-billion dollar total addressable market. As we continue to innovate and introduce new products, we expect that the use cases for our solutions will expand, leading to incremental growth in our addressable market opportunity.

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 in this prospectus 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 played 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 in all geographies. As of December 31, 2013, we had approximately 2,400 customers, spanning leading firms in the financial services, public, healthcare, energy and utilities, industrial, technology, consumer and retail, education and media and entertainment sectors.

Our business model is characterized by strong revenue growth, growing repeat business and high gross margins. We have achieved significant growth and scale in the relatively short period of time since we started operations in 2005. For 2011, 2012 and 2013, our revenues were $39.8 million, $53.4 million and $74.6 million, respectively, representing year-over-year growth of 34% and 40% in 2012 and 2013, respectively. In 2011, 2012 and 2013, we had operating losses of $3.4 million, $1.6 million and $5.8 million, respectively. In 2011, 2012 and 2013, we had net losses of $3.8 million, $4.8 million and $7.5 million, respectively.

Industry Background

According to IDC estimates, the amount of information created and replicated in 2012 alone exceeded 2.8 zettabytes, or trillions of gigabytes, and expects this amount of information to grow at a compound annual growth rate of 39% from 2012 through 2020, representing a greater than 50-fold increase between 2010 and 2020. Additionally, the IDC Study estimates that more than 90% of the data created in the next decade will be unstructured data. Unstructured data includes both human-generated data and machine-generated data, such as log files that servers generate. Often the most valuable and fastest growing asset a business owns is its human-generated data that its employees spend hours creating and refining every day.

Table of Contents

The chart below depicts the three forms of data that are generated in enterprises globally:

Human-generated data is inherently difficult to manage, protect and analyze. This form of unstructured data can be easily created and shared by humans, but without additional structure or metadata context, it cannot be easily classified or tagged by existing solutions. As a result, enterprises miss opportunities to extract value from this strategic asset. This value loss contrasts with how enterprises have been able to extract value from structured data, which tends to reside in databases and can be easily reviewed and analyzed. The IDC Study estimated that while 23% of the digital universe contained information that might be valuable if analyzed, only 0.5% of the digital universe is in fact analyzed.

Prior to relational databases and business intelligence tools, enterprises lacked the ability to analyze and extract strategic value from their vast stores of structured data. Once the core analysis platform was developed for structured data, numerous additional tools, use cases and technologies emanated from the widespread adoption of the relational database. We believe that the ubiquity and growth of unstructured human-generated data is analogous to that of structured data, but the growth of unstructured, human-generated data is outpacing the growth of structured data. We see a similar ecosystem developing from the analysis of human-generated data and believe that our platform will continue to play a major role in harnessing the value of data for our clients.

Existing technologies are available to manage and extract value from machine-generated data; however, similar technologies for human-generated data are not widespread. Enterprises are slowly gaining a better understanding of the potential value of their human-generated data and are demanding solutions that allow them to manage, protect and extract value from it. There is a growing need for solutions that demonstrate the ability to function across many platforms, to scale effectively and to provide users with intelligent and actionable reporting.

Table of Contents

Key Challenges in Managing Human-Generated Enterprise Data

The key challenges in managing human-generated enterprise data are:

- lack of granular access control;
- inability to track user data access activity;
- challenges in aligning data ownership with business context;
- growth of mobility leading to multiple access platforms;
- limited capabilities of archiving and migration platforms;
- inability to identify and classify sensitive data;
- increasing regulatory compliance;
- ineffective existing solutions; and
- cyber-attacks and hacktivism.

Illustrative Use Cases of Varonis Solution within Enterprises

We have described below several functionalities and use cases that our customers have been able to deliver based on our technology platform. We intend to introduce new products and enhance the capabilities of our existing products to expand the use cases for our solutions.

Create a Searchable Log of All Historical Activity for any Human-Generated Data. IT and business personnel can use our software to monitor and alert on unstructured data events, including when files were created, deleted, modified, moved or accessed or when an email was sent, modified or deleted. This technology enables a variety of uses, such as finding lost or missing files, sending real time alerts on undesirable actions, forensic investigations, usage profiling and compliance with industry regulations.

Provide Centralized Visibility into Unstructured Data. In addition to having the ability to search for usage, IT and business personnel have a granular map of all directory structures and access privileges from the perspective of data, users or groups, or content. This map allows for rapid responses to queries about who has access to a data set, what data a user or group can access, who deleted or moved files and many other day-to-day concerns facing IT and business personnel.

Multi-variable Search for Sensitive or Topic-Specific Data and Monitor its Security, Ownership and Usage and Reduce Potential Exposures. The Varonis Data Classification Framework allows enterprises to search their file systems for data that matches known sensitive data content patterns, such as credit card numbers, social security numbers, project names and client names and then cross-references that with metadata regarding which employees have accessed those files. This multi-variable search functionality allows enterprises to identify, tag and prioritize data based on specific user access patterns coupled with other relevant metadata.

Identify and Track Data Ownership. With the significant growth of unstructured data and the increased complexity of the infrastructure storing it, many enterprises have large volumes of data for which no designated owner exists in the system. Our platform can identify data that does not have an owner and recommends likely ownership candidates. Once confirmed, ownership is tracked in our Metadata Framework. This capability helps enterprises assign the correct owners for their data and enables subsequent analysis and search based on the owner, including functionality such as appropriate internal charging for data usage and storage.

Enhance Business Productivity Through Self-Service Data Management. We empower business personnel, who are the authors and ultimate owners of unstructured data, to grant and review data privileges and activity based on accessibility, context and usage, enabling more effective classification, migration, disposition and control. Historically, enterprises have relied on IT personnel to perform these tasks based on a generic set of policies or rules. This frequently led to excessive access privileges, stale, unused data or lost ownership. Our platform also allows business personnel to request access to desired folders through a self-service web portal that filters and routes the request to system-identified managers of data. Our software also periodically proactively prompts business unit personnel to review access and provides intelligent recommendations on whether access should be revoked based on an analysis of historical usage and access patterns. Moreover, our software enables time-based authorizations, whereby access to selected data expires after a given time period. Our platform can also be used by IT personnel to simulate and evaluate the impact of permission changes before actually implementing the change.

Intelligently Archive, Quarantine and Migrate Data. Enterprises store data in many places and must frequently move or delete it for various reasons, including compliance with retention policies, IT infrastructure upgrades, better accessibility, legal matters, security, disk space savings, corporate restructurings, divestitures or easier employee accessibility, such as moving all data pertaining to a given project into a Sharepoint folder for group collaboration. Many existing data migration and archiving solutions utilize time stamps to determine which data to move. Our Metadata Framework empowers businesses to search for data that meets specific criteria, such as its usage or lack thereof, its content, its file system attributes, and its accessibility, and then execute the automatic deletion, copy, move or migration of this data on a one time or recurring schedule. Our platform can migrate data across storage platforms and domains.

Create Secure Hybrid Clouds for Content Collaboration. Employees are increasingly storing corporate data in public cloud services for remote working purposes, quick access from smartphones or tablets or sharing with external business partners, often without corporate approval or oversight. This can result in a significant amount of proprietary and regulated data leaking on to non-corporate devices outside of enterprise controls. Our DatAnywhere software helps enterprises overcome this problem by allowing them to offer the productivity gains, ease of use, and mobile device access typically associated with public cloud services, while ensuring their data stays on their existing IT infrastructure and adheres to existing policies and controls.

Highlight Abnormal Usage Activity. Our software automatically generates alerts when an employee s data usage deviates from his or her historical patterns, such as accessing or deleting an abnormally large number of files. This functionality acts as a safeguard for enterprises to protect their data against misuse or theft and also provides other valuable insights, such as early detection of upcoming resignations.

Identify and Secure High-Risk Data. Enterprises need the ability to restrict access to confidential or proprietary files and information. For example, data belonging to key business functions such as finance, human resources, legal, or research and development, as well as stored customer data, such as credit card numbers, or social security numbers, constitute critical business assets that should be accessible by only the appropriate employees. Our platform allows enterprises to identify and remediate data lacking the appropriate level of security thereby reducing potential data theft, loss or misuse.

Our Growth Strategy

Our objective is to be the primary vendor to which enterprises turn to analyze, protect and transform into actionable intelligence their human-generated data. The following are key elements of our growth strategy:

- extending our technological capabilities through innovation;

growing our customer base;

increasing sales to existing customers;

growing our sales force;

growing sales from our recently introduced products;

Table of Contents

- establishing our metadata framework as the industry standard; and
- continuing our international expansion.

Risk Factors

Investing in our common stock involves risks. You should carefully consider the risks described in Risk Factors beginning on page 12 before making a decision to invest in our common stock. If any of these risks actually occurs, our business, financial condition or results of operations would likely be materially adversely affected. In such case, the trading price of our common stock would likely decline, and you may lose all or part of your investment. The following is a summary of some of the principal risks we face:

- the market for our software that maps, analyzes, manages and migrates human-generated unstructured data is new and unproven and may not grow;
- our quarterly results of operations have fluctuated and may fluctuate significantly due to variability in our revenues, which could adversely impact our share price;
- our ability to hire, integrate and retain highly qualified engineers and productive sales and marketing personnel is critical to our success and growth;
- if we fail to manage our rapid growth effectively, our business and results of operations will be adversely affected;
- our failure to continually enhance and improve our human-generated unstructured data technology could adversely affect sales of our products;
- we are dependent on the continued services and performance of our two founders, the loss of either of whom could adversely affect our business, results of operations and financial condition;
- we may face increased competition in our market;
- we have a history of losses, and we may not be profitable in the future;
- we have a limited operating history, which makes it difficult to evaluate and predict our future prospects and may increase the risk that we will not be successful; and

concentration of our ownership among our executive officers, directors and their affiliates may prevent new investors from influencing significant corporate decisions.

Industry Data

This prospectus includes data, forecasts and information obtained from industry publications and surveys and other information available to us. Some data is also based on our good faith estimates, which are derived from management s knowledge of the industry and independent sources. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying assumptions relied upon therein. While we are not aware of any misstatements regarding the industry data presented herein, estimates and forecasts involve uncertainties and risks and are subject to change based on various factors, including those discussed under the headings Special Note Regarding Forward-Looking Statements and Risk Factors in this prospectus. Furthermore, the IDC Study was sponsored by EMC Corporation, one of our largest channel partners and the holder of approximately 6.4% of our outstanding common stock (assuming the conversion of all of our preferred stock into common stock, which will occur immediately prior to the closing of this offering).

Our Principal Stockholders

Following the completion of this offering, our executive officers and directors, and 5% or greater stockholders consisting of Accel Europe Funds, Evergreen IV, LP, Pitango Venture Capital Funds, J.P. Morgan Affiliated Funds and EMC Corporation will beneficially own approximately % of our outstanding common stock, or % if the underwriters exercise their option in full to purchase additional shares.

Table of Contents

Company Information

We were incorporated as a Delaware corporation in November 2004. Our principal executive office is located at 1250 Broadway, 31st Floor, New York, New York 10001. The telephone number at our principal executive office is (877) 292-8767. Our website address is www.varonis.com. We do not incorporate the information on, or accessible through, our website into this prospectus, and you should not consider any information on, or that can be accessed through our website as part of this prospectus. We have included our website address in this prospectus solely for informational purposes.

We use various trademarks and trade names in our business, including, without limitation, Varonis, DatAdvantage, DataPrivilege, IDU Data Classification Framework, Metadata Framework, IDU Analytics, Data Transport Engine DatAnywhere. This prospectus also contains trademarks and trade names of other businesses that are the property of their respective holders. We have omitted the ® and designations, as applicable, for the trademarks we name in this prospectus.

Table of Contents

THE OFFERING

Common stock offered by us	shares.
Option to purchase additional shares	The underwriters have a 30-day option to purchase shares from us and shares from the selling stockholder.
Common stock to be outstanding after this offering	shares (shares if the underwriters exercise their option in full to purchase additional shares).
Use of proceeds	Our net proceeds from this offering will be approximately $ million (or approximately $ million if the underwriters exercise their option in full to purchase additional shares) after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of common stock by the selling stockholder.

We intend to use the net proceeds we receive from this offering for general corporate purposes, including headcount expansion, working capital, sales and marketing activities, research and product development, general and administrative matters, and capital expenditures. See Use of Proceeds.

Proposed Nasdaq Global Select Market symbol	VRNS

The number of shares of our common stock to be outstanding after this offering is based on 19,035,455 shares of our common stock outstanding as of December 31, 2013. The number of shares of common stock to be outstanding after this offering excludes, as of December 31, 2013:

- 3,341,539 shares of common stock reserved for issuance under our equity incentive plans as of December 31, 2013, of which options to purchase 3,285,075 shares of common stock had been granted at a weighted average exercise price of $4.04 per share; and

- 93,176 shares of common stock issuable upon the exercise of outstanding warrants to purchase Series C preferred stock at an exercise price of $4.56 per share and 29,396 shares of common stock issuable upon the exercise of outstanding warrants to purchased Series E preferred stock at an exercise price of $11.48 per share.

Unless otherwise indicated, the information in this prospectus assumes the following:

- the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws, which will occur immediately prior to the closing of this offering;

- the conversion of all outstanding shares of preferred stock into 15,082,141 shares of common stock, which will occur immediately prior to the closing of this offering;

- an initial public offering price of $ per share of common stock, the midpoint of the estimated initial public offering price range set forth on the cover page of this prospectus; and

- no exercise by the underwriters of their option to purchase additional shares.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table summarizes our consolidated financial data. We have derived the summary consolidated statement of operations data for the years ended December 31, 2011, 2012 and 2013 and the consolidated balance sheet data as of December 31, 2013 from our audited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in any future period. You should read the following summary consolidated financial data in conjunction with the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, related notes and other financial information included elsewhere in this prospectus.

	Year Ended December 31,		
	2011	2012	2013
	(In thousands, except share and per share data)		
Consolidated Statement of Operations Data:			
Revenues:			
Licenses	$ 25,436	$ 31,606	$ 43,488
Maintenance and services	14,343	21,804	31,128
Total revenues	39,779	53,410	74,616
Cost of revenues(1)	3,524	4,928	6,476
Gross profit	36,255	48,482	68,140
Operating costs and expenses:			
Research and development(1)	13,049	15,034	20,973
Sales and marketing(1)	22,095	30,036	44,131
General and administrative(1)	4,514	4,966	8,881
Total operating expenses	39,658	50,036	73,985
Operating loss	(3,403)	(1,554)	(5,845)
Financial expenses, net	(171)	(3,045)	(1,274)
Loss before income taxes	(3,574)	(4,599)	(7,119)
Income taxes	(224)	(247)	(356)
Net loss	$ (3,798)	$ (4,846)	$ (7,475)
Net loss per share of common stock, basic and diluted(2)	$ (1.10)	$ (1.29)	$ (1.93)
Weighted average shares used to compute net loss per share attributable to common stockholders, basic and diluted(2)	3,460,612	3,756,761	3,880,761
Pro forma net loss per share attributable to common stockholders, basic and diluted(3)			$ (0.39)

Pro forma weighted average shares outstanding used to compute pro forma net loss per share, basic and diluted(3)	18,964,356

9

Table of Contents

	As of December 31, 2013		
	Actual	**Pro Forma[4]**	**Pro Forma as Adjusted[5]**
	(In thousands)		
Consolidated Balance Sheet Data:			
Cash, cash equivalents and short-term deposits	$ 13,977	$ 13,977	
Working capital	3,376	3,376	
Total assets	47,254	47,254	
Deferred revenues, current and long-term	28,700	28,700	
Warrants to purchase convertible preferred stock	2,866		
Convertible preferred stock	43,775		
Total stockholders equity (deficiency)	(43,008)	3,633	

	Year Ended December 31,		
	2011	**2012**	**2013**
	(In thousands)		
Other Financial Data:			
Non-GAAP operating loss[6][7]	$ (3,168)	$ (706)	$ (4,057)
Non-GAAP net loss[6][8]	(3,796)	(803)	(4,179)

(1) Includes non-cash stock-based compensation as follows:

	Year Ended December 31,		
	2011	**2012**	**2013**
	(In thousands)		
Cost of revenues	$ 12	$ 41	$ 39
Research and development	81	327	551
Sales and marketing	103	284	841
General and administrative	39	196	357
Total	$ 235	$ 848	$ 1,788

(2) Basic and diluted net loss per share of common stock is computed based on the weighted average number of shares of common stock outstanding during each period. For additional information, see Note 2.v to our consolidated financial statements included elsewhere in this prospectus.

(3) Pro forma net loss per share and pro forma weighted average shares outstanding give effect to (i) the conversion immediately prior to the closing of this offering of all outstanding shares of preferred stock into 15,082,141 shares of common stock and (ii) the resulting reclassification immediately prior to the closing of this offering of

warrants to purchase preferred stock into warrants to purchase common stock, but does not include the issuance of shares of common stock in connection with this offering.

(4) Pro forma gives effect to (i) the conversion immediately prior to the closing of this offering of all outstanding shares of preferred stock into 15,082,141 shares of common stock and (ii) the resulting reclassification immediately prior to the closing of this offering of the warrants to purchase convertible preferred stock into additional paid-in capital.

(5) Pro forma as adjusted gives effect to (i) such conversion and reclassification as discussed in footnote (4) above and (ii) the issuance and sale of common stock by us in this offering at an assumed initial public offering price of $ per share, the midpoint of the estimated initial public offering price range set forth on the cover of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

(6) We believe that the use of non-GAAP operating loss and non-GAAP net loss is helpful to our investors. These measures, which we refer to as our non-GAAP financial measures, are not prepared in accordance

with GAAP. We calculate non-GAAP operating loss as operating loss excluding stock-based compensation expense related to employees and consultants. We calculate non-GAAP net loss as net loss excluding (i) non-cash stock-based compensation expense related to employees and consultants, and (ii) financial expenses resulting from the revaluation of warrants to purchase convertible preferred stock. Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company s non-cash expense, we believe that providing non-GAAP financial measures that exclude non-cash stock-based compensation expense related to employees and consultants allow for more meaningful comparisons between our operating results from period to period. In addition, we believe that excluding financial expenses with respect to revaluation of warrants to purchase convertible preferred stock allows for more meaningful comparison between our net loss from period to period, as following this offering, the warrants will be automatically converted into warrants to purchase our common stock, and as a result, will no longer be revalued at each balance sheet date. Each of our non-GAAP financial measures is an important tool for financial and operational decision making and for evaluating our own operating results over different periods of time.

The non-GAAP financial data are not measures of our financial performance under U.S. GAAP and should not be considered as alternatives to operating loss or net loss or any other performance measures derived in accordance with GAAP. Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact on our reported financial results. Further, non-cash stock-based compensation expense related to employees and consultants has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of the compensation provided to our employees. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. We urge our investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measures to evaluate our business.

(7) The following table reconciles operating loss to non-GAAP operating loss:

	Year Ended December 31,		
	2011	**2012**	**2013**
		(In thousands)	
Operating loss	$ (3,403)	$ (1,554)	$ (5,845)
Excluding: non-cash stock-based compensation expense	235	848	1,788
Non-GAAP operating loss	$ (3,168)	$ (706)	$ (4,057)

(8) The following table reconciles net loss to non-GAAP net loss:

	Year Ended December 31,		
	2011	2012	2013
	(In thousands)		
Net loss	$ (3,798)	$ (4,846)	$ (7,475)
Excluding: non-cash stock-based compensation expense	235	848	1,788
Excluding: revaluation of convertible stock warrants	(233)	3,195	1,508
Non-GAAP net loss	$ (3,796)	$ (803)	$ (4,179)

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and all other information contained in this prospectus, including our consolidated financial statements and the related notes thereto, before investing in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks materialize, our business, financial condition and results of operations could be materially harmed. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.

Risks Related to Our Business and Industry

The market for software that maps, analyzes, manages and migrates human-generated unstructured data is new and unproven and may not grow.

We believe our future success depends in large part on the growth of the market for software that enables enterprises to map, analyze, manage and migrate their human-generated, unstructured data. In order for us to market and sell our products, we must successfully demonstrate to enterprise IT and business personnel the potential value of their human-generated data and persuade them to devote a portion of their budgets to the single integrated solution that we offer to manage, protect and extract value from this resource. We cannot provide any assurance that enterprises will recognize the need for our products or, if they do, that they will decide that they need a solution that offers the range of functionalities that we offer. Software solutions focused on human-generated unstructured data may not yet be viewed as a necessity by enterprises, and accordingly, our sales effort is and will be focused in large part on explaining the need for, and value offered by, our solution. We can provide no assurance that the market for our solution will continue to grow at its current rate or at all. The failure of the market to develop would materially adversely impact our results of operations.

Our quarterly results of operations have fluctuated and may fluctuate significantly due to variability in our revenues which could adversely impact our share price.

Our revenues and other results of operations have fluctuated from quarter to quarter in the past and could continue to fluctuate in the future. Our revenues depend in part on the conversion of enterprises that have installed an evaluation license for our software into paying customers. In this regard, most of our sales are typically made during the last three weeks of every quarter. We may fail to meet market expectations for that quarter if we are unable to close the number of transactions that we expect during this short period and closings are deferred to a subsequent quarter. In addition, our sales cycle from initial contact to delivery of and payment for the software license generally becomes longer and less predictable with respect to large transactions and often involves multiple meetings or consultations at a substantial cost and time commitment to us. Although we try to minimize the potential impact of large transactions on our quarterly results of operations, the closing of a large transaction in a particular quarter may make it more difficult for us to meet market expectations in subsequent quarters and our failure to close a large transaction may adversely impact our revenues in a particular quarter. In addition, we base our current and future expense levels on our revenue forecasts and operating plans, and our expenses are relatively fixed in the short term. Accordingly, we would likely not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues and even a relatively small decrease in revenues could disproportionately and adversely affect our financial results for that quarter. The variability and unpredictability of these and other factors could result in our failing to meet or exceed financial expectations for a given period.

The ability to attract, recruit and retain highly qualified engineers is critical to our success and growth.

Our future success and growth depends, in part, on our ability to continue to recruit and retain highly skilled personnel, particularly engineers. Any of our employees may terminate their employment at any time and competition for highly skilled engineering personnel is frequently intense, especially in Israel, where we have a substantial presence and need for qualified engineers. Moreover, to the extent we hire personnel from other companies, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information. If we are unable to attract or retain qualified engineers, our ability to innovate, introduce new products and compete would be adversely impacted, and our financial condition and results of operations may suffer.

A failure to hire and integrate additional sales and marketing personnel or maintain their productivity could adversely affect our results of operations and growth prospects.

Our business requires intensive sales and marketing activities. Our sales and marketing personnel are essential to attracting new customers and expanding sales to existing customers, both of which are key to our future growth. We face a number of challenges in successfully expanding our sales force. We must locate and hire a significant number of qualified individuals, and competition for such individuals is intense. In addition, as we expand into new markets with which we have less familiarity, we will need to recruit individuals who are multilingual or who have skills particular to a certain geography, and it may be difficult to find candidates with those qualifications. We may be unable to achieve our hiring or integration goals due to a number of factors, including, but not limited to, the number of individuals we hire, challenges in finding individuals with the correct background due to increased competition for such hires and increased attrition rates among new hires. Furthermore, based on our past experience, it often can take up to one year before a new sales force member is trained and operating at a level that meets our expectations. We invest significant time and resources in training new members of our sales force and we may be unable to achieve our target performance levels with new sales personnel as rapidly as we have done in the past due to larger numbers of hires or lack of experience training sales personnel to operate in new jurisdictions. Our failure to hire a sufficient number of qualified individuals, or to integrate new sales force members within the time periods we have achieved historically, may materially impact our projected growth rate.

If we fail to manage our rapid growth effectively, our business and results of operations will be adversely affected.

We have experienced rapid growth in a relatively short period of time. Our revenues grew from $39.8 million in 2011 to $74.6 million in 2013. Our number of employees and independent contractors increased from 281 as of December 31, 2011 to 573 as of December 31, 2013. During this period, we also established and expanded our operations in a number of countries outside the United States. We intend to continue to aggressively grow our business. For example, we plan to continue to hire new employees, particularly in our sales and marketing and research and development groups. If we cannot adequately train these new employees, including our sales force, software engineers and customer support staff, our sales may not grow at the rates we project or our customers may lose confidence in the knowledge and capability of our employees. In addition, we are expanding our current operations, including in additional countries where we have not previously had a presence, and we intend to make direct and substantial investments to continue our expansion efforts. We must successfully manage our growth to achieve our objectives. Although our business has experienced significant growth in the past, we cannot provide any assurance that our business will continue to grow at the same rate, or at all.

Our ability to effectively manage any significant growth of our business will depend on a number of factors, including our ability to do the following:

- effectively recruit, integrate, train and motivate a large number of new employees, including our sales force and engineers, while retaining existing employees, maintaining the beneficial aspects of our corporate culture and effectively executing our business plan;

satisfy existing customers and attract new customers;

effectively manage existing channel partnerships and expand to new ones;

successfully introduce new products and enhancements;

improve our key business applications and processes to support our business needs;

enhance information and communication systems to ensure that our employees and offices around the world are well-coordinated and can effectively communicate with each other and our growing customer base;

enhance our internal controls to ensure timely and accurate reporting of all of our operations and financial results;

protect and further develop our strategic assets, including our intellectual property rights; and

make sound business decisions in light of the scrutiny associated with operating as a public company.

These activities will require significant investments and allocation of valuable management and employee resources, and our growth will continue to place significant demands on our management and our operational and financial infrastructure. There are no guarantees we will be able to grow our business in an efficient or timely manner, or at all. Moreover, if we do not effectively manage the growth of our business and operations, the quality of our software could suffer, which could negatively affect our brand, results of operations and overall business.

Our failure to continually enhance and improve our human-generated unstructured data technology could adversely affect sales of our products.

The market is characterized by the exponential growth in human-generated unstructured data, rapid technological advances, changes in customer requirements, including customer requirements driven by changes to legal, regulatory and self-regulatory compliance mandates, frequent new product introductions and enhancements and evolving industry standards in computer hardware and software technology. As a result, we must continually change and improve our products in response to changes in operating systems, application software, computer and communications hardware, networking software, data center architectures, programming tools and computer language technology. Moreover, the technology in our products is especially complex because it needs to effectively identify and respond to a user s data retention, security and governance needs, while minimizing the impact on database and file system performance. Our products must also successfully interoperate with products from other vendors.

We cannot guarantee that we will be able to anticipate future market needs and opportunities or be able to extend our technological expertise and develop new products or expand the functionality of our current products in a timely manner or at all. Even if we are able to anticipate, develop and introduce new products and expand the functionality of our current products, there can be no assurance that enhancements or new products will achieve widespread market acceptance.

Our product enhancements or new products could fail to attain sufficient market acceptance for many reasons, including:

failure to accurately predict market demand in terms of product functionality and to supply products that meet this demand in a timely fashion;

- inability to interoperate effectively with the database technologies and file systems of prospective customers;
- defects, errors or failures;
- negative publicity or customer complaints about performance or effectiveness; and
- poor business conditions, causing customers to delay IT purchases.

If we fail to anticipate market requirements or stay abreast of technological changes, we may be unable to successfully introduce new products, expand the functionality of our current products or convince our customers and potential customers of the value of our solutions in light of new technologies. Accordingly, our business, results of operations and financial condition could be materially and adversely affected.

Table of Contents

We are dependent on the continued services and performance of our two founders, the loss of either of whom could adversely affect our business.

Our future performance depends on the continued services and continuing contributions of our two founders, Yakov Faitelson, our Chief Executive Officer and President, and Ohad Korkus, our Chief Technology Officer, to execute on our business plan, and to identify and pursue new opportunities and product innovations. The loss of services of either of Mr. Faitelson or Mr. Korkus could significantly delay or prevent the achievement of our development and strategic objectives. We carry key-man insurance on Mr. Faitelson and Mr. Korkus; however, the amount of any such insurance would likely be insufficient to compensate for the impact of losing their services.

We may face increased competition in our market.

While there are some companies which offer certain features similar to those imbedded in our solutions, as well as others with whom we compete in certain tactical use cases, we believe that we do not currently compete with a company that offers the same breadth of functionalities that we offer in a single integrated solution. Nevertheless, we do compete against a select group of software vendors that provide standalone solutions, similar to those found in our comprehensive software suite, in the specific markets in which we operate. We also face direct competition with respect to certain of our products, specifically DatAnywhere, Data Transport Engine and DatAdvantage for Directory Services. In the future, as customer requirements evolve and new technologies are introduced, we may experience increased competition if established or emerging companies develop solutions that address the human-generated unstructured data market. Furthermore, because we operate in a relatively new and evolving area, we anticipate that competition will increase based on customer demand for these types of products.

In particular, if a more established company were to target our market, we may face significant competition. They may have competitive advantages, such as greater name recognition, larger sales, marketing, research and acquisition resources, access to larger customer bases and channel partners, a longer operating history and lower labor and development costs, which may enable them to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we do. Increased competition could result in us failing to attract customers or maintain licenses at the same rate. It could also lead to price cuts, alternative pricing structures or the introduction of products available for free or a nominal price, reduced gross margins, longer sales cycles and loss of market share.

In addition, our current or prospective channel partners may establish cooperative relationships with any future competitors. These relationships may allow future competitors to rapidly gain significant market share. These developments could also limit our ability to obtain revenues from existing and new customers.

Our ability to compete successfully in our market will also depend on a number of factors, including ease and speed of product deployment and use, the quality and reliability of our customer service and support, total cost of ownership, return on investment and brand recognition. Any failure by us to successfully address current or future competition in any one of these or other areas may reduce the demand for our products and adversely affect our business, results of operations and financial condition.

We have a history of losses, and we may not be profitable in the future.

We have incurred net losses in each year since our inception, including net losses of $3.8 million in 2011, $4.8 million in 2012 and $7.5 million in 2013. Because the market for our software is rapidly evolving and has not yet reached widespread adoption, it is difficult for us to predict our future results of operations. We expect our operating expenses to increase over the next several years as we hire additional personnel, particularly in sales and marketing and research and development groups, expand and improve the effectiveness of our distribution channels, and continue to develop features and applications for our software.

Table of Contents

We have a limited operating history, which makes it difficult to evaluate and predict our future prospects and may increase the risk that we will not be successful.

We were established in 2004 and have a short history operating our business. This limited operating history, as well as the early stage of our relationships with many of our channel partners and customers, makes financial forecasting and evaluation of our business difficult. We also operate in a new and growing market that may not develop as expected. Because we depend in part on the market s acceptance of our products, it is difficult to evaluate trends that may affect our business. If our assumptions regarding these trends and uncertainties, which we use to plan our business, are incorrect or change in reaction to changes in the market, our operating and financial results could differ materially from our expectations and our business could suffer.

Our future success will depend in large part on our ability to, among other things:

- maintain and expand our business, including our customer base and operations, to support our growth, both domestically and internationally;
- develop new products and services and bring products and services in beta to market;
- renew maintenance and support agreements with, and sell additional products to, existing customers;
- hire, integrate, train and retain skilled talent, including members of our sales force and software engineers; and
- maintain compliance with applicable governmental regulations and other legal obligations, including those related to intellectual property, international sales and taxation.

If we fail to address these and other risks and difficulties, our business will be adversely affected and our business, operations and financial results will suffer.

Prolonged economic uncertainties or downturns could materially adversely affect our business.

Our business depends on our current and prospective customers ability and willingness to invest money in information technology services, which in turn is dependent upon their overall economic health. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from financial and credit market fluctuations and terrorist attacks on the United States, Europe, Asia Pacific or elsewhere, could cause a decrease in corporate spending on enterprise software in general.

Continuing uncertainty in the global economy, particularly in Europe, which accounted for approximately one-third of our revenues in 2013, makes it extremely difficult for our customers and us to forecast and plan future business activities accurately, and could cause our customers to reevaluate decisions to purchase our product or to delay their purchasing decisions, which could lengthen our sales cycles.

We have a significant number of customers in the financial services, the public sector and the pharmaceutical and manufacturing industries. A substantial downturn in any of these industries, or a reduction in public sector spending, may cause enterprises to react to worsening conditions by reducing their capital expenditures in general or by specifically reducing their spending on information technology. Customers may delay or cancel information technology projects, choose to focus on in-house development efforts or seek to lower their costs by renegotiating maintenance and support agreements. To the extent purchases of licenses for our software are perceived by customers and potential customers to be discretionary, our revenues may be disproportionately affected by delays or reductions in general information technology spending. In addition, the increased pace of consolidation in certain industries may result in reduced overall spending on our software. If the economic conditions of the general economy or industries in which we operate worsen from present levels, our business, results of operations and financial condition could be adversely affected.

Table of Contents

If we are unable to maintain successful relationships with our channel partners, our business could be adversely affected.

We rely on channel partners, such as distribution partners and resellers, to sell licenses and support and maintenance agreements for our software. In 2013, our channel partners fulfilled the vast majority of our sales, and we expect that sales to channel partners will continue to account for a substantial portion of our revenues for the foreseeable future. Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our channel partners, and particularly the relationships we have with our larger channel partners, such as EMC, which accounted for 6.1% of our revenues for the year ended December 31, 2013.

Our agreements with our channel partners are generally non-exclusive, meaning our channel partners may offer customers the products of several different companies. If our channel partners do not effectively market and sell our software, choose to use greater efforts to market and sell their own products or those of others, or fail to meet the needs of our customers, our ability to grow our business, sell our software and maintain our reputation may be adversely affected. Our contracts with our channel partners generally allow them to terminate their agreements for any reason upon 30 days notice. The loss of a substantial number of our channel partners, our possible inability to replace them, or the failure to recruit additional channel partners could materially and adversely affect our results of operations. If we are unable to maintain our relationships with these channel partners, our business, results of operations, financial condition or cash flows could be adversely affected.

If our technical support or professional services are not satisfactory to our customers, they may not renew their maintenance and support agreements or buy future products, which could adversely affect our future results of operations.

Our business relies on our customers satisfaction with the technical support and professional services we provide to support our products. While substantially all of our software is sold under perpetual license agreements, all of our maintenance and support agreements are sold on a term basis. Our customers typically purchase one year of software maintenance and support as part of their initial purchase of our products, with an option to renew their maintenance agreements. In order for us to maintain and improve our results of operations, it is important that our existing customers renew their maintenance and support agreements when the contract term expires. For example, our maintenance renewal rate for each of the years ended December 31, 2011, 2012 and 2013 was over 90% and maintenance and service revenues have increased as a percentage of our revenues in each of such years.

If we fail to provide technical support services that are responsive, satisfy our customers expectations and resolve issues that they encounter with our products and services, then they may elect not to purchase or renew annual maintenance and support contracts and they may choose not to purchase additional products and services from us. Accordingly, our failure to provide satisfactory technical support or professional services could lead our customers not to renew their agreements with us or renew on terms less favorable to us, and therefore have a material and adverse effect on our business and results of operations.

Because we derive substantially all of our revenues and cash flows from sales of licenses for a single platform of products, failure of the four products in the platform to satisfy customers or to achieve increased market acceptance would adversely affect our business.

In 2013, we generated substantially all of our revenues from sales of licenses for our platform of products that encompasses four of our current products, DatAdvantage, DataPrivilege, IDU Classification Framework and Data Transport Engine. Revenues derived from the sale of our only other product, DatAnywhere, are currently insignificant. We expect to continue to derive a majority of our revenues from license sales relating to this platform in the future. As such, market acceptance of this platform of products is critical to our continued success. Demand for licenses for our platform of products is affected by a number of factors, some of which are outside of our control, including continued market acceptance of our software by referenceable accounts for existing and new use cases, technological change and growth or contraction in our market. We expect the proliferation of unstructured data to lead to an increase in the data analysis demands, and data security and retention concerns, of our customers, and our software, including the software underlying our platform of products, may not be able to scale and perform to meet those demands. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of our software, our business, operations, financial results and growth prospects will be materially and adversely affected.

Failure to protect our proprietary technology and intellectual property rights could substantially harm our business.

The success of our business depends on our ability to obtain, protect and enforce our trade secrets, trademarks, copyrights, patents and other intellectual property rights. We attempt to protect our intellectual property under patent, trademark, copyrights and trade secret laws, and through a combination of confidentiality procedures, contractual provisions and other methods, all of which offer only limited protection.

As of January 31, 2014, we had 10 issued patents in the United States and 45 pending U.S. patent applications. We also had two patents issued and 49 applications pending for examination in non-U.S. jurisdictions, and 42 pending Patent Cooperation Treaty, or PCT, patent applications, all of which are counterparts of our U.S. patent applications. We may file additional patent applications in the future. The process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner all the way through to the successful issuance of a patent. We may choose not to seek patent protection for certain innovations and may choose not to pursue patent protection in certain jurisdictions. Furthermore, it is possible that our patent applications may not issue as granted patents, that the scope of our issued patents will be insufficient or not have the coverage originally sought, that our issued patents will not provide us with any competitive advantages, and that our patents and other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. In addition, issuance of a patent does not guarantee that we have an absolute right to practice the patented invention. Our policy is to require our employees (and our consultants and service providers that develop intellectual property included in our products) to execute written agreements in which they assign to us their rights in potential inventions and other intellectual property created within the scope of their employment (or, with respect to consultants and service providers, their engagement to develop such intellectual property), but we cannot assure you that we have adequately protected our rights in every such agreement or that we have executed an agreement with every such party. Finally, in order to benefit from patent and other intellectual property protection, we must monitor, detect and pursue infringement claims in certain circumstances in relevant jurisdictions, all of which is costly and time-consuming. As a result, we may not be able to obtain adequate protection or to enforce our issued patents or other intellectual property effectively.

In addition to patented technology, we rely on our unpatented proprietary technology and trade secrets. Despite our efforts to protect our proprietary technologies and our intellectual property rights, unauthorized parties, including our employees, consultants, service providers or customers, may attempt to copy aspects of our products or obtain and use our trade secrets or other confidential information. We generally enter into confidentiality agreements with our employees, consultants, service providers, vendors, channel partners and customers, and generally limit access to and distribution of our proprietary information and proprietary technology through certain procedural safeguards. These agreements may not effectively prevent unauthorized use or disclosure of our intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our intellectual property or technology. We cannot assure you that the steps taken by us will prevent misappropriation of our trade secrets or technology or infringement of our intellectual property. In addition, the laws of some foreign countries where we operate do not protect our proprietary rights to as great an extent as the laws of the United States, and many foreign countries do not enforce these laws as diligently as government agencies and private parties in the United States.

Moreover, industries in which we operate, such as data security, data retention and data governance are characterized by the existence of a large number of relevant patents and frequent claims and related litigation regarding patent and other intellectual property rights. From time to time, third parties have asserted and may assert their patent, copyright, trademark and other intellectual property rights against us, our channel partners or our customers. Successful claims of infringement or misappropriation by a third party could prevent us from distributing certain products or performing certain services or could require us to pay substantial damages (including, for example, treble damages if we are found to have willfully infringed patents and increased statutory damages if we are found to have willfully infringed copyrights), royalties or other fees. Such claims also could require us to cease making, licensing or using solutions that are alleged to infringe or misappropriate the intellectual property of others or to expend additional development resources to attempt to redesign our products or services or otherwise to develop non-infringing technology. Even if third parties may offer a license to their technology, the terms of any offered license may not be acceptable, and the failure to obtain a license or the costs associated with any license could cause our business, results of operations or financial condition to be materially and adversely affected. In some cases, we indemnify our channel partners and customers against claims that our products infringe the intellectual property of third parties. Defending against claims of infringement or being deemed to be infringing the intellectual property rights of others could impair our ability to innovate, develop, distribute and sell our current and planned products and services. If we are unable to protect our intellectual property rights and ensure that we are not violating the intellectual property rights of others, we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time and effort required to create the innovative products that have enabled us to be successful to date.

Interruptions or performance problems associated with our website or support website may adversely affect our business.

Our continued growth depends in part on the ability of our existing and potential customers to quickly access our website and support website. Access to our support website is also imperative to our daily operations and interaction with customers, as it allows customers to download our software, fixes and patches, as well as open and respond to support tickets and register license keys for evaluation or production purposes. We have experienced, and may in the future experience, website disruptions, outages and other performance problems due to a variety of factors, including natural disasters, infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our website simultaneously and denial of service or fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these website performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve the performance of our websites, especially during peak usage times and as our software becomes more complex and our user traffic increases. If our websites are unavailable or if our users are unable to download our software, patches or fixes within a reasonable amount of time or at all, we may suffer reputational harm and our business would be negatively affected.

Real or perceived errors, failures or bugs in our software could adversely affect our growth prospects.

Because our software uses complex technology, undetected errors, failures or bugs may occur. Our software is often installed and used in a variety of computing environments with different operating system management software, and equipment and networking configurations, which may cause errors or failures of our software or other aspects of the computing environment into which it is deployed. In addition, deployment of our software into computing environments may expose undetected errors, compatibility issues, failures or bugs in our software. Despite testing by us, errors, failures or bugs may not be found in our software until it is released to our customers. Moreover, our customers could incorrectly implement or inadvertently misuse our software, which could result in customer dissatisfaction and adversely impact the perceived utility of our products as well as our brand. Any of these real or perceived errors, compatibility issues, failures or bugs in our software could result in negative publicity, reputational harm, loss of or delay in market acceptance of our software, loss of competitive position or claims by customers for losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem.

Table of Contents

If our software is perceived as not being secure, customers may reduce the use of or stop using our software, and we may incur significant liabilities.

Our software involves the transmission of data between data stores, and between data stores and desktop and mobile computers, and may in the future involve the storage of data. Any security breaches with respect to such data could result in the loss of this information, litigation, indemnity obligations and other liabilities. While we have taken steps to protect the confidential information that we have access to, including confidential information we may obtain through our customer support services or customer usage of our products, we have no direct control over the substance of the content. Therefore, if customers use our software for the transmission of personally identifiable information and our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, our reputation could be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. While we maintain insurance coverage for some of the above events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Any or all of these issues could tarnish our reputation, negatively impact our ability to attract new customers or sell additional products to our existing customers, cause existing customers to elect not to renew their maintenance and support agreements or subject us to third-party lawsuits, regulatory fines or other action or liability, thereby adversely affecting our results of operations.

We are subject to federal, state and industry privacy and data security regulations, which could result in additional costs and liabilities to us or inhibit sales of our software.

Although our software does not transmit our customers data to us, we collect and utilize demographic and other information, including personally identifiable information, from and about users (such as customers, potential customers and others) as they interact with us over the internet and otherwise provide us with information whether via our website or blog or through email or other means. Users may provide personal information to us in many contexts, including through our direct telephonic support service, blog alert sign-up, product purchase, survey registration, or when accessing our online support portals or using other community or social networking features. Because we may collect and utilize this information, we are subject to laws and regulations regarding the collection, use and disclosure of personal information. In the United States, these include rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and state breach notification laws. Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal framework with which we or our customers must comply, including the Data Protection Directive established in the European Union and the Federal Data Protection Act recently implemented in Germany.

Further, the regulatory framework for privacy issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations. In addition, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually apply to us. Because the interpretation and application of privacy and data protection laws are still uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our software. If so, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our software, which could have an adverse effect on our business. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

Table of Contents

Our use of open source software could negatively affect our ability to sell our software and subject us to possible litigation.

We use open source software and expect to continue to use open source software in the future. Some open source software licenses require users who distribute open source software as part of their own software product to publicly disclose all or part of the source code to such software product or to make available any derivative works of the open source code on unfavorable terms or at no cost. We may face ownership claims of third parties over, or seeking to enforce the license terms applicable to, such open source software, including by demanding the release of the open source software, derivative works or our proprietary source code that was developed using such software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our software, any of which would have a negative effect on our business and results of operations. In addition, if the license terms for the open source code change, we may be forced to re-engineer our software or incur additional costs. Finally, we cannot assure you that we have incorporated open source software into our own software in a manner that conforms with our current policies and procedures.

Our business is highly dependent upon our brand recognition and reputation, and the failure to maintain or enhance our brand recognition or reputation may adversely affect our business.

We believe that enhancing the Varonis brand identity and maintaining our reputation in the information technology industry is critical to our relationships with our customers and to our ability to attract new customers. Our brand recognition and reputation is dependent upon:

- our ability to continue to offer high-quality, innovative and error- and bug-free products;
- our ability to maintain customer satisfaction with our products;
- our ability to be responsive to customer concerns and provide high quality customer support, training and professional services;
- our marketing efforts;
- any misuse or perceived misuse of our products;
- positive or negative publicity;
- interruptions, delays or attacks on our website; and
- litigation or regulatory-related developments.

We may not be able to successfully promote our brand or maintain our reputation. In addition, independent industry analysts often provide reviews of our products, as well as other products available in the market, and perception of our product in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive than reviews about other products available in the market, our brand may be adversely affected. Furthermore, negative publicity relating to events or activities attributed to us, our employees, our channel partners or others associated with any of these parties, may tarnish our reputation and reduce the value of our brand. Damage to our reputation and loss of brand equity may reduce demand for our products and have an adverse effect on our business, results of operations and financial condition. Any attempts to rebuild our reputation and restore the value of our brand may be costly and time consuming, and such efforts may not ultimately be successful.

Moreover, it may be difficult to enhance our brand and maintain our reputation in connection with sales to channel partners. Promoting our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive, as we expand into new markets and geographies and as more sales are generated to our channel partners. To the extent that these activities yield increased revenues, these revenues may not offset the increased expenses we incur. If we do not successfully enhance our brand and maintain our reputation, our business may not grow, we may have reduced pricing power relative to competitors with stronger brands, and we could lose customers, all of which would adversely affect our business, operations and financial results.

Table of Contents

Our long-term growth depends, in part, on being able to continue to expand internationally on a profitable basis, which subjects us to risks associated with conducting international operations.

Historically, we have generated a majority of our revenues from customers in the United States. In 2013, approximately 57% of our total revenues were derived from sales in the United States. Nevertheless, we have operations across the globe, and 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 further expansion of our international operations will subject us to a variety of risks and challenges, including:

- sales and customer service challenges associated with operating in different countries;
- increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;
- difficulties in receiving payments from different geographies, including difficulties associated with currency fluctuations, payment cycles, transfer of funds or collecting accounts receivable, especially in emerging markets;
- variations in economic or political conditions between each country or region;
- economic uncertainty around the world and adverse effects arising from economic interdependencies across countries and regions;
- compliance with foreign laws and regulations and the risks and costs of non-compliance with such laws and regulations;
- compliance with laws and regulations for foreign operations, including the U.S. Foreign Corrupt Practices Act of 1977, the U.K. Bribery Act of 2010, import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell our software in certain foreign markets, and the risks and costs of non-compliance;
- heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of financial statements and irregularities in financial statements;
- reduced protection for intellectual property rights in certain countries and practical difficulties and costs of enforcing rights abroad; and

compliance with the laws of numerous foreign taxing jurisdictions and overlapping of different tax regimes. Any of these risks could adversely affect our international operations, reduce our revenues from outside the United States or increase our operating costs, adversely affecting our business, results of operations and financial condition and growth prospects. There can be no assurance that all of our employees, independent contractors and channel partners will comply with the formal policies we have and will implement, or applicable laws and regulations. Violations of laws or key control policies by our employees, independent contractors and channel partners could result in delays in revenue recognition, financial reporting misstatements, fines, penalties or the prohibition of the importation or exportation of our software and services and could have a material adverse effect on our business and results of operations.

Table of Contents

Significant changes in the contracting or fiscal policies of the public sector, or our failure to comply with certain laws or regulations, could have a material adverse effect on the business we do with the public sector.

We derive a portion of our revenues from governments and government-owned or -controlled entities (such as public health care bodies, educational institutions and utilities), which we refer to as the public sector in this prospectus, and we believe that the success and growth of our business will continue to depend on our successful procurement of public sector contracts. Factors that could impede our ability to maintain or increase the amount of revenues derived from public sector contracts include:

- changes in public sector fiscal or contracting policies;
- decreases in available public sector funding;
- changes in public sector programs or applicable requirements;
- the adoption of new laws or regulations or changes to existing laws or regulations;
- potential delays or changes in the public sector appropriations or other funding authorization processes; and
- delays in the payment of our invoices by public sector payment offices.

Furthermore, we must comply with laws and regulations relating to public sector contracting, which affect how we and our channel partners do business in both the United States and abroad. These laws and regulations may impose added costs on our business, and failure to comply with these or other applicable regulations and requirements, including non-compliance in the past, could lead to claims for damages from our channel partners, penalties, termination of contracts, and temporary suspension or permanent debarment from public sector contracting.

The occurrence of any of the foregoing could cause public sector customers to delay or refrain from purchasing licenses of our software in the future or otherwise have an adverse effect on our business, operations and financial results.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.

We incorporate encryption technology into certain of our products and these products are subject to U.S. export control. We are also subject to Israeli export controls on encryption technology since our product development initiatives are primarily conducted by our wholly-owned Israeli subsidiary. We have obtained the required licenses to export our products outside of the United States. In addition, the current encryption means used in our products are listed in the free means encryption items published by the Israeli Ministry of Defense, which means we are exempt from obtaining an encryption control license. If the applicable U.S. or Israeli legal requirements regarding the export of encryption technology were to change or if we change the encryption means in our products, we may need to apply for new licenses in the United States and may no longer be able to rely on our licensing exception in Israel. There can be no assurance that we will be able to obtain the required licenses under these circumstances. Furthermore, various other countries regulate the import of certain encryption technology, including import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers ability to implement our products in those countries.

We are also subject to U.S. and Israeli export control and economic sanctions laws, which prohibit the shipment of certain products to embargoed or sanctioned countries, governments and persons. Our products could be exported to these sanctioned targets by our channel partners despite the contractual undertakings they have given us and any such export could have negative consequences, including government investigations, penalties and reputational harm. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, financial condition and results of operations.

If currency exchange rates fluctuate substantially in the future, our results of operations, which are reported in U.S. dollars, could be adversely affected.

Our functional and reporting currency is the U.S. dollar, and we generate a majority of our revenues and incur a majority of our expenses in U.S. dollars. Revenues and expenses are also incurred in other currencies, primarily Euros, New Israeli Shekels, or NIS, and Pounds Sterling. Accordingly, changes in exchange rates may have a material adverse effect on our business, results of operations and financial condition. The exchange rates between the U.S. dollar and foreign currencies have fluctuated substantially in recent years and may continue to fluctuate substantially in the future. Furthermore, a strengthening of the U.S. dollar could increase the cost in local currency of our software to customers outside the United States, which could adversely affect our business, results of operations, financial condition and cash flows. We incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currencies. The weakening of the U.S. dollar against such currencies would cause the dollar equivalent of such expenses to increase. This could have a negative impact on our reported results of operations. We have in the past engaged in hedging activities, and any hedging strategies that we may implement in the future to mitigate currency risks, such as forward contracts, options and foreign exchange swaps related to transaction exposures, may not eliminate our exposure to foreign exchange fluctuations.

Our ability to use our net operating loss carryforwards, or NOLs, and other tax attributes may be limited if we undergo an ownership change.

Our ability to utilize our NOLs and other tax attributes could be limited if we undergo an ownership change within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, or the Code. An ownership change is generally defined as a greater than 50 percentage point increase in equity ownership by 5% stockholders in any three-year period. If an ownership change occurred as a result of the sale of our common stock pursuant to this offering, prior and future equity issuances, or the cumulative effect of such transactions, we may not be able to fully realize the benefits of these NOLs. Also, the cash tax benefit from our NOLs is dependent upon our ability to generate sufficient taxable income. Accordingly, we may be unable to earn enough taxable income in order to fully utilize our current NOLs.

Changes in our provision for income taxes or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

We are subject to income taxation in the United States, Israel and numerous other jurisdictions. Determining our provision for income taxes requires significant management judgment. In addition, our provision for income taxes could be adversely affected by many factors, including, among other things, changes to our operating structure, changes in the amounts of earnings in jurisdictions with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws. We are subject to ongoing tax examinations in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. While we regularly evaluate the likely outcomes of these examinations to determine the adequacy of our provision for income taxes, there can be no assurance that the outcomes of such examinations will not have a material impact on our results of operations and cash flows. In addition, we may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. For example, we are currently subject to tax audits in Florida and New York relating to sales and excise taxes, and one audit in Israel.

Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our results of operations or cash flows in the period or periods for which a determination is made.

Table of Contents

Significant judgment is required to determine the recognition and measurement attributes prescribed in Accounting Standards Codification, or ASC 740-10-25. In addition, ASC 740-10-25 applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes. Further, as a result of certain of our ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates. Our failure to meet these commitments could adversely impact our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our results of operations.

The enactment of legislation changing the United States taxation of international business activities or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Recent changes to U.S. tax laws, including limitations on the ability of taxpayers to claim and utilize foreign tax credits and the deferral of certain tax deductions until earnings outside the United States are repatriated to the United States, as well as changes to U.S. tax laws that may be enacted in the future, could impact the tax treatment of our foreign earnings. Due to the expansion of our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and adversely affect our financial position and results of operations.

We conduct our operations in a number of jurisdictions worldwide and report our taxable income based on our business operations in those jurisdictions. Our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations.

We may require additional capital to support our business growth, and this capital might not be available on acceptable terms, or at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features or enhance our software, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financing to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be adversely affected.

Our business is subject to the risks of fire, power outages, floods, earthquakes and other catastrophic events, and to interruption by manmade problems such as terrorism.

A significant natural disaster, such as a fire, flood or an earthquake, or a significant power outage could have a material adverse impact on our business, results of operations and financial condition. In the event our customers information technology systems or our channel partners selling or distribution abilities are hindered

25

by any of these events, we may miss financial targets, such as revenues and sales targets, for a particular quarter. Further, if a natural disaster occurs in a region from which we derive a significant portion of our revenue, customers in that region may delay or forego purchases of our products, which may materially and adversely impact our results of operations for a particular period. In addition, acts of terrorism could cause disruptions in our business or the business of channel partners, customers or the economy as a whole. Given our typical concentration of sales at each quarter end, any disruption in the business of our channel partners or customers that impacts sales at the end of our quarter could have a significant adverse impact on our quarterly results. All of the aforementioned risks may be augmented if the disaster recovery plans for us and our channel partners prove to be inadequate. To the extent that any of the above results in delays or cancellations of customer orders, or the delay in the manufacture, deployment or shipment of our products, our business, financial condition and results of operations would be adversely affected.

Risks Related to our Operations in Israel

Conditions in Israel may limit our ability to develop and sell our products, which could result in a decrease of our revenues.

Our principal research and development facility, which also houses a portion of our support and general and administrative teams, is located in Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries, as well as incidents of terror activities and other hostilities. Political, economic and security conditions in Israel could directly affect our operations. We could be adversely affected by hostilities involving Israel, including acts of terrorism or any other hostilities involving or threatening Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant increase in inflation or a significant downturn in the economic or financial condition of Israel. Any on-going or future armed conflicts, terrorist activities, tension along the Israeli borders or political instability in the region could disrupt international trading activities in Israel and may materially and negatively affect our business and could harm our results of operations.

Certain countries, as well as certain companies and organizations, continue to participate in a boycott of Israeli companies, companies with large Israeli operations and others doing business with Israel and Israeli companies. The boycott, restrictive laws, policies or practices directed towards Israel, Israeli businesses or Israeli citizens could, individually or in the aggregate, have a material adverse effect on our business in the future.

Some of our officers and employees in Israel are obligated to perform routine military reserve duty in the Israel Defense Forces, depending on their age and position in the armed forces. Furthermore, they may be called to active reserve duty at any time under emergency circumstances for extended periods of time. Our operations could be disrupted by the absence, for a significant period, of one or more of our officers or key employees due to military service, and any significant disruption in our operations could harm our business.

We may be required to pay royalties to employees who develop inventions that have been or will be commercialized by us.

Under the Israeli Patents Law, 5727-1967, if there is no agreement that prescribes whether, to what extent and on what conditions, an employee is entitled to remuneration from commercialization of an invention developed by or with the contribution of such employee during his or her employment, then such matter may, upon application by the employee, be decided by a government-appointed compensation and royalties committee established under the Patents Law. In a decision issued in February 2010, the committee ruled that an employee s assignment of a service invention to his employer does not necessarily negate the employee s right to receive royalties or other compensation. In a subsequent decision of the Israeli Supreme Court from August 2012 the Supreme Court stated that even if the employee has signed an express written waiver of royalties for inventions made during his employment, the employee can still bring a compensation claim before the committee.

A significant portion of our intellectual property (including our patents) has been developed by our Israeli employees in the course of their employment for us. Our policy is to require all of our employees to execute invention assignment agreements upon commencement of employment, in which they assign their rights to potential inventions and acknowledge that they will not be entitled to additional compensation or royalties from commercialization of inventions. However, given the foregoing uncertainty with respect to the enforceability of a waiver of the right to future royalties, we may be required to pay royalties to our employees who have invented intellectual property that we have commercialized, which in turn may have a material adverse effect on our results of operations.

The tax benefits that are available to our Israeli subsidiary require it to continue to meet various conditions and may be terminated or reduced in the future, which could increase its taxes.

Our Israeli subsidiary benefits from a status of a Beneficiary Enterprise under the Israeli Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law. Based on an evaluation of the relevant factors under the Investment Law, including the level of foreign (i.e., non-Israeli) investment in our Israeli subsidiary, we have determined that the effective tax rate to be paid by our Israeli subsidiary as a Beneficiary Enterprise has historically been below 10%. If our Israeli subsidiary does not meet the requirements for maintaining this status, for example, if the Israeli subsidiary materially changes the nature of its business, it may no longer be eligible to enjoy this reduced tax rate. As a result, our Israeli subsidiary would be subject to Israeli corporate tax at the standard rate, which is currently set at 26.5%. Even if our Israeli subsidiary continues to meet the relevant requirements, the tax benefits that the status of Beneficiary Enterprise provides may not be continued in the future at their current levels or at all. If these tax benefits were reduced or eliminated, the amount of taxes that our Israeli subsidiary would pay would likely increase, as all of our Israeli operations would consequently be subject to corporate tax at the standard rate, which could adversely affect our results of operations. Additionally, if our Israeli subsidiary increases its activities outside of Israel, for example, through acquisitions, these activities may not be eligible for inclusion in Israeli tax benefit programs. The tax benefits derived from the status of Beneficiary Enterprise is dependent upon the ability to generate sufficient taxable income. Accordingly, our Israeli subsidiary may be unable to earn enough taxable income in order to fully utilize its tax benefits.

Risks Related to this Offering and Ownership of our Common Stock

Market volatility may affect our stock price and the value of your investment.

Following the completion of this offering, the market price for our common stock is likely to be volatile, in part because our shares have not been previously traded publicly. The initial public offering price will be determined by negotiations between us, the underwriters and the selling stockholder. You may not be able to resell your shares above the initial public offering price and may suffer a loss on your investment. In addition, the market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot predict or control, including:

- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- fluctuations in stock market prices and trading volumes of securities of similar companies;
- general market conditions and overall fluctuations in U.S. equity markets;

actual or anticipated fluctuations in our results or those of our competitors;

changes in securities analysts estimates of our financial performance;

changes in accounting principles;

sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;

additions or departures of any of our key personnel;

lawsuits threatened or filed against us;

changing legal or regulatory developments in the United States and other countries; and

other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business, results of operations, financial condition and cash flows.

An active trading market for our common stock may never develop or be sustained.

We intend to apply to list the common stock on The Nasdaq Global Select Market under the symbol VRNS. However, we cannot assure you that an active trading market for our common stock will develop on that exchange or elsewhere or, if developed, that any market will be sustained. Accordingly, we cannot assure you of the likelihood that an active trading market for our common stock will develop or be maintained, the liquidity of any trading market, your ability to sell your shares of common stock when desired or the prices that you may obtain for your shares.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of your investment.

Our management will have broad discretion over the use of our net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. We expect to use the net proceeds from this offering primarily for general corporate purposes, including working capital, sales and marketing activities, product development, general and administrative matters and capital expenditures. As such, our management could spend the proceeds in ways that do not necessarily improve our results of operations or enhance the value of our common stock. For a further description of our intended use of the proceeds of the offering, see Use of Proceeds.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

The market price of shares of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers and significant stockholders, a large number of shares of our common stock becoming available for sale or the perception in the market that holders of a large number of shares intend to sell their shares. Immediately following completion of this offering, we will have outstanding shares of our common stock, based on the number of shares outstanding as of December 31, 2013. This includes the shares included in this offering, which may be resold in the public market immediately. The remaining 19,035,455 shares are currently restricted securities. Substantially all of these shares are also

Table of Contents

subject to lock-up agreements restricting their sale for 180 days after the date of this prospectus, as more fully described in Underwriters. Morgan Stanley & Co. LLC may, in its sole discretion, permit our officers, directors, employees and current stockholders who are subject to the 180-day contractual lock-up to sell shares prior to the expiration of the lock-up agreements.

After this offering, the holders of an aggregate of 17,370,121 shares of our common stock will have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders. We also intend to register shares of common stock that we may issue under our employee equity incentive plans. Once we register these shares, they will be able to be sold freely in the public market upon issuance, subject to existing market stand-off and/or lock-up agreements.

Concentration of ownership among our existing executive officers, directors and their affiliates may prevent new investors from influencing significant corporate decisions.

Upon completion of this offering, our executive officers, directors and 5% or greater stockholders will beneficially own, in the aggregate, approximately % of our outstanding common stock. As a result, such persons, acting together, will have the ability to control our management and affairs and substantially all matters submitted to our stockholders for approval, including the election and removal of directors and approval of any significant transaction. These persons will also have the ability to control our management and business affairs. Additionally, these persons interests may not be, at all times, the same as those of our other stockholders, and they may vote in a way that is adverse to other stockholders interests. Our officers and directors are not simply passive investors but also include our executive officers, and as such their interests as executives may at times be adverse to those of our passive investors.

This concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would benefit other stockholders.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price per share will be substantially higher than the pro forma net tangible book value per share of our common stock outstanding prior to this offering. As a result, investors purchasing common stock in this offering will experience immediate dilution of $ per share. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of common and preferred stock. In addition, we have issued options to acquire common stock at prices significantly below the initial public offering price. To the extent outstanding options are ultimately exercised, there will be further dilution to investors in this offering. In addition, if the underwriters exercise their option to purchase additional shares from us or if we issue additional equity securities, you will experience additional dilution.

The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain executive management and qualified board members.

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the listing requirements of The Nasdaq Global Select Market and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources, particularly after we are no longer an emerging growth company.

Table of Contents

The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and results of operations. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management s attention may be diverted from other business concerns, which could adversely affect our business and results of operations. We may need to hire more employees in the future or engage outside consultants to comply with these requirements, which will increase our costs and expenses. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management s time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected. However, for as long as we remain an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act), we may take advantage of certain exemptions from various reporting requirements that are applicable to emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may take advantage of these reporting exemptions until we are no longer an emerging growth company.

We will remain an emerging growth company for up to five years. If our non-convertible debt issued within a three year period or revenues exceeds $1 billion, or the market value of our common stock held by non-affiliates exceeds $700 million on the last day of the second fiscal quarter of any given fiscal year, we would cease to be an emerging growth company as of the following fiscal year.

We may not complete our analysis of our internal control over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

As a result of becoming a public company, we will be obligated to develop and maintain proper and effective internal control over financial reporting. We will be required, pursuant to Section 404 of the Sarbanes Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the first fiscal year beginning after the effective date of this offering. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. We have commenced the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective.

We will be required to disclose changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging

Table of Contents

growth company as defined in the JOBS Act if we take advantage of the exemptions contained in the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future. To comply with the requirements of being a public company, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff.

If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline, and we may be subject to investigation or sanctions by the SEC.

We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We do not intend to pay dividends on our common stock, so any returns will be limited to the value of our stock.

We have never declared or paid cash dividends on our common stock. We currently anticipate that we will retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will be dependent on a number of factors, including our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. In addition, each of the loan agreements for our credit facilities contains a prohibition on the payment of cash dividends. Until such time that we pay a dividend, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may delay or prevent an acquisition of us or a change in our management. These provisions include:

- authorizing blank check preferred stock, which could be issued by the board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock, which would increase the number of outstanding shares and could thwart a takeover attempt;

- a classified board of directors whose members can only be dismissed for cause;

the prohibition on actions by written consent of our stockholders;

the limitation on who may call a special meeting of stockholders;

the establishment of advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon at stockholder meetings; and

the requirement of at least 75% of the outstanding capital stock to amend any of the foregoing second through fifth provisions.

Table of Contents

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us. Although we believe these provisions collectively provide for an opportunity to obtain greater value for stockholders by requiring potential acquirers to negotiate with our board of directors, they would apply even if an offer rejected by our board were considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. You can generally identify forward-looking statements because they contain words such as may, will, should, expects, plans, anticipates, could, intends, target, projects, contemplates, believes, estimates, predicts, po the negative of these terms or other similar expressions that concern our expectations, strategy, plans or intentions. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our business, financial condition and results of operations. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section entitled Risk Factors and elsewhere in this prospectus. Accordingly, you should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those projected in the forward looking statements. Forward-looking statements contained in this prospectus include, but are not limited to, statements about:

- our expectations regarding the growth of the market for our software;
- our ability to grow our customer base;
- our ability to increase sales to existing customers;
- our intention to establish our Metadata Framework as an industry standard;
- our ability to leverage our sales model;
- our expectations regarding the effectiveness of our sales force and our ability to attract and retain customers;
- our intent to penetrate further our existing markets and penetrate new markets;
- our plans to invest in developing future products and expand the functionalities in our current products;
- our plans to invest in research and development for the development of new products;
- the unpredictability of our sales cycle; and

other factors discussed elsewhere in this prospectus.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this prospectus. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this prospectus may not occur.

The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds from the sale of shares of our common stock that we are selling in this offering will be approximately $ million, based on an initial public offering price of $ per share, the midpoint of the estimated initial public offering price range set forth on the cover of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters option to purchase additional shares from us is exercised in full, we estimate that we will receive additional net proceeds of approximately $ million after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of common stock by the selling stockholder.

A $1.00 increase (decrease) in the assumed initial public offering price per share would increase (decrease) the estimated net proceeds to us by approximately $ million (or approximately $ million if the underwriters exercise in full their option to purchase additional shares of common stock), assuming that the number of shares of common stock sold by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. Similarly, each increase (decrease) of 100,000 shares in the number of shares of common stock offered by us would increase (decrease) the net proceeds to us from this offering by approximately $ million, assuming that the assumed initial public offering price remains the same, and after deducting the underwriting discounts and commissions.

The principal purposes of this offering are to obtain additional capital, to increase our financial flexibility and visibility in the marketplace, to create a public market for our common stock and to facilitate our future access to the public equity markets. We intend to use the net proceeds we receive from this offering for general corporate purposes, including headcount expansion, working capital, sales and marketing activities, research and product development, general and administrative matters, and capital expenditures. We may also use a portion of the net proceeds for the acquisition of, or investment in, technologies, solutions or businesses that complement our business, although we have no present commitments to complete any such transactions at this time. We will have broad discretion over the uses of the net proceeds in this offering, and, as of the date of this prospectus, we have not allocated the net proceeds to particular uses. Until we use the proceeds we receive from this offering for the above mentioned purposes, we intend to invest the net proceeds in short-term, investment-grade interest-bearing securities such as money market funds, certificates of deposit, commercial paper and obligations of the U.S. government and government agencies.

Table of Contents

DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will be dependent on a number of factors, including our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. The loan agreement for our credit facility contains a prohibition on the payment of cash dividends.

Table of Contents

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of December 31, 2013, as follows:

- on an actual basis;
- on a pro forma basis to reflect (i) the conversion of all outstanding shares of our preferred stock into shares of common stock immediately prior to the closing of this offering and (ii) the resulting reclassification of the warrants to purchase convertible preferred stock into additional paid-in capital; and
- on a pro forma as adjusted basis to give effect to (i) the conversion described in the preceding clause, (ii) the issuance and sale of common stock in this offering at an assumed initial public offering price of $ per share, midpoint of the estimated initial public offering price range set forth on the cover of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us and (iii) the adoption of our amended and restated certificate of incorporation to be effective upon the closing of this offering.

You should read this table in conjunction with the sections entitled Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of December 31, 2013		
	Actual	Pro Forma	Pro Forma as Adjusted
	(In thousands, except share amounts)		
Cash and cash equivalents	$ 9,633	$ 9,633	$
Preferred A, B, C, D and E stock of $0.001 par value per share: 16,986,384 shares authorized, 15,082,141 shares issued and outstanding, actual; shares authorized, no shares issued and outstanding, pro forma; shares authorized, no shares issued and outstanding, pro forma as adjusted; Aggregate liquidation preference of $0	43,775		
Stockholders equity (deficit):			
Common stock of $0.001 par value per share: 26,000,000 shares authorized, 3,953,314 shares issued and outstanding, actual; 26,000,000 shares authorized, 19,035,455 shares issued and outstanding, pro forma; 200,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted	4	19	
Additional paid-in capital	4,741	51,367	
Accumulated deficit	(47,753)	(47,753)	
Total stockholders equity	$ (43,008)	$ 3,633	$

Total capitalization	$ 767	$ 3,633	$

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, would increase (decrease) the as adjusted amount of each of cash and cash equivalents, additional paid-in capital, total stockholders deficiency and total capitalization by approximately $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

36

Table of Contents

DILUTION

If you invest in our common stock in this offering, your interest will be diluted immediately to the extent of the difference between the initial public offering price per share of our common stock, the midpoint of the estimated initial public offering price range set forth on the cover of this prospectus, and pro forma net tangible book value per share of our common stock after this offering. Our net tangible book value as of December 31, 2013 was $3.4 million, or $0.18 per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the number of shares of common stock outstanding, as of December 31, 2013 after giving effect to (i) the conversion of all outstanding shares of our convertible preferred stock into 15,082,141 shares of our common stock immediately prior to the closing of this offering and (ii) the resulting reclassification of the preferred stock warrant liability to additional paid-in capital.

After giving effect to the sale by us of shares of common stock in this offering at an initial public offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of December 31, 2013 would have been approximately $ million, or approximately $ per share. This amount represents an immediate increase in net tangible book value of $ per share to our existing stockholders and an immediate dilution in net tangible book value of approximately $ per share to new investors purchasing shares of common stock in this offering at the initial public offering price.

The following table illustrates this dilution:

Assumed initial public offering price per share		$
Net tangible book value per share as of December 31, 2013	$	
Increase per share attributable to new investors in this offering		
Pro forma net tangible book value per share after this offering		
Dilution per share to new investors in this offering		$

The dilution information discussed above is illustrative only and will change based on the actual initial public offering price and other terms of this offering. If the underwriters exercise in full their option to purchase additional shares of common stock, the pro forma net tangible book value per share after giving effect to this offering would be $ per share, and the dilution in pro forma net tangible book value per share to new investors in this offering would be $ per share, in each case calculated as described above.

The following table summarizes, on the same pro forma basis as of December 31, 2013, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by the existing stockholders and by new investors purchasing shares in this offering, before deducting the underwriting discounts and commissions and estimated offering expenses payable by us (amounts in thousands, except percentages and per share data):

	Shares Purchased		Total Consideration		Average
	Number	Percent	Amount	Percent	Price Per

				Share
Existing stockholders	%	$	%	$
New investors	%		%	
Total	100.0%	$	100.0%	

Assuming the underwriters option to purchase additional shares is exercised in full, sales by us and the selling stockholder in this offering will reduce the number of shares of common stock held by existing stockholders to , or approximately %, and will increase the number of shares of common stock to be purchased by new investors to , or approximately %, of the total shares of common stock outstanding after the offering.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial and other data should be read in conjunction with the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations as well as our consolidated financial statements and related notes included elsewhere in this prospectus. We have derived the summary consolidated statement of operations data for the years ended December 31, 2011, 2012 and 2013 and the consolidated balance sheet data as of December 31, 2012 and 2013 from our audited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in any future period.

	Year Ended December 31,		
	2011	2012	2013
	(In thousands, except share and per share data)		
Consolidated Statement of Operations Data:			
Revenues:			
Licenses	$ 25,436	$ 31,606	$ 43,488
Maintenance and services	14,343	21,804	31,128
Total revenues	39,779	53,410	74,616
Cost of revenues[1]	3,524	4,928	6,476
Gross profit	36,255	48,482	68,140
Operating costs and expenses:			
Research and development[1]	13,049	15,034	20,973
Sales and marketing[1]	22,095	30,036	44,131
General and administrative[1]	4,514	4,966	8,881
Total operating expenses	39,658	50,036	73,985
Operating loss	(3,403)	(1,554)	(5,845)
Financial expenses, net	(171)	(3,045)	(1,274)
Loss before income taxes	(3,574)	(4,599)	(7,119)
Income taxes	(224)	(247)	(356)
Net loss	$ (3,798)	$ (4,846)	$ (7,475)
Net loss per share attributable of common stock, basic and diluted[2]	$ (1.10)	$ (1.29)	$ (1.93)
Weighted average shares used to compute net loss per share attributable to common stockholders, basic and diluted[2]	3,460,612	3,756,761	3,880,761
			$ (0.39)

Pro forma net loss per share attributable to common stockholders, basic and diluted[3]	
Pro forma weighted average shares outstanding used to compute pro forma net loss per share, basic and diluted[3]	18,964,356

	As of December 31,	
	2012	2013
	(In thousands)	
Consolidated Balance Sheet Data:		
Cash, cash equivalents and short-term deposits	$ 14,813	$ 13,977
Working capital	7,931	3,376
Total assets	37,694	47,254
Deferred revenues, current and long-term	21,273	28,700
Warrants to purchase convertible preferred stock	5,774	2,866
Convertible preferred stock	37,959	43,775
Total stockholders deficiency	(37,448)	(43,008)

Table of Contents

	2011	Year Ended December 31, 2012 (In thousands)	2013
Other Financial Data:			
Non-GAAP operating loss(4)(5)	$ (3,168)	$ (706)	$ (4,057)
Non-GAAP net loss(4)(6)	(3,796)	(803)	(4,179)

(1) Includes non-cash stock-based compensation as follows:

	2011	Year Ended December 31, 2012 (In thousands)	2013
Cost of revenues	$ 12	$ 41	$ 39
Research and development	81	327	551
Sales and marketing	103	284	841
General and administrative	39	196	357
Total stock-based compensation expense	$ 235	$ 848	$ 1,788

(2) Basic and diluted net loss per share of common stock is computed based on the weighted average number of shares of common stock outstanding during each period. For additional information, see Note 2.v to our consolidated financial statements included elsewhere in this prospectus.

(3) Pro forma net loss per share and pro forma weighted average shares outstanding give effect to (i) the conversion immediately prior to the closing of this offering of all outstanding shares of preferred stock into 15,082,141 shares of common stock and (ii) the resulting reclassification immediately prior to the closing of this offering of the warrants to purchase preferred stock into warrants to purchase common stock, but does not include the issuance of shares of common stock in connection with this offering.

(4) We believe that the use of non-GAAP operating loss and non-GAAP net loss is helpful to our investors. These measures, which we refer to as our non-GAAP financial measures, are not prepared in accordance with GAAP. We calculate non-GAAP operating loss as operating loss excluding stock-based compensation expense related to employees and consultants. We calculate non-GAAP net loss as net loss excluding (i) non-cash stock-based compensation expense and (ii) financial expenses resulting from the revaluation of warrants to purchase convertible preferred stock. Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company s non-cash expense, we believe that providing non-GAAP financial measures that exclude non-cash stock-based compensation expense related to employees and consultants allow for more meaningful comparisons between our operating results from period to period. In addition, we believe that excluding financial expenses with respect to revaluation of convertible preferred stock warrants allows for more meaningful comparison between the net loss results from period to period, as following this offering, the warrants will be automatically converted into warrants to purchase our common stock and as a result, will no longer be revalued at each balance sheet date. Each of our non-GAAP financial measures is an important tool for financial and operational decision making and for evaluating our own operating results over different periods of time.

The non-GAAP financial data are not measures of our financial performance under U.S. GAAP and should not be considered as alternatives to operating loss or net loss or any other performance measures derived in accordance with GAAP. Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact on our reported financial