VARONIS SYSTEMS INC
Form 10-Q
August 04, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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**(Mark One)**

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

**For the quarterly period ended June 30, 2017**

**or**

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

**For the transition period from __________ to __________**

**Commission File Number: 001-36324**

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**VARONIS SYSTEMS, INC.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **57-1222280** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **1250 Broadway, 29th Floor New York, NY** | **10001** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(877) 292-8767**

**(Registrant's telephone number, including area code)**

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

At August 2, 2017, there were 27,504,378 shares of Common Stock, par value $0.001 per share, outstanding.

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**PART 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**CONSOLIDATED BALANCE SHEETS**

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

| | June 30, 2017 (unaudited) | December 31, 2016 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $53,539 | $ 48,315 |
| Short-term investments | 68,039 | 65,493 |
| Trade receivables (net of allowance for doubtful accounts of $420 and $372 at June 30, 2017 and December 31, 2016, respectively) | 41,313 | 53,861 |
| Prepaid expenses and other current assets | 7,571 | 3,650 |
| Total current assets | 170,462 | 171,319 |
| | | |
| Long-term assets: | | |
| Other assets | 818 | 609 |
| Property and equipment, net | 11,160 | 9,910 |
| Total long-term assets | 11,978 | 10,519 |
| Total assets | $182,440 | $ 181,838 |
| | | |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Trade payables | $1,348 | $ 1,288 |
| Accrued expenses and other short term liabilities | 30,769 | 28,479 |
| Deferred revenues | 57,457 | 58,478 |
| Total current liabilities | 89,574 | 88,245 |
| | | |
| Long-term liabilities: | | |
| Deferred revenues | 3,889 | 3,562 |
| Severance pay | 1,472 | 1,664 |
| Other liabilities | 5,273 | 5,628 |
| Total long-term liabilities | 10,634 | 10,854 |
| | | |
| Stockholders' equity: | | |
| Share capital | | |
| Common stock of $0.001 par value - Authorized: 200,000,000 shares at June 30, 2017 and December 31, 2016; Issued and outstanding: 27,468,395 shares at June 30, 2017 and 26,821,762 shares at December 31, 2016 | 27 | 27 |

| | | |
|---|---|---|
| Accumulated other comprehensive income (loss) | 2,128 | (479) |
| Additional paid-in capital | 204,751 | 189,335 |
| Accumulated deficit | (124,674) | (106,144) |
| Total stockholders' equity | 82,232 | 82,739 |
| Total liabilities and stockholders' equity | $182,440 | $ 181,838 |

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

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**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Revenues: | | | | |
| Licenses | $28,420 | $21,742 | $47,575 | $35,586 |
| Maintenance and services | 21,754 | 16,899 | 42,979 | 33,525 |
| Total revenues | 50,174 | 38,641 | 90,554 | 69,111 |
| Cost of revenues | 4,878 | 3,721 | 9,550 | 7,217 |
| Gross profit | 45,296 | 34,920 | 81,004 | 61,894 |
| Operating costs and expenses: | | | | |
| Research and development | 11,498 | 8,905 | 21,907 | 17,742 |
| Sales and marketing | 32,560 | 26,840 | 63,371 | 51,204 |
| General and administrative | 6,582 | 4,760 | 12,095 | 9,322 |
| Total operating expenses | 50,640 | 40,505 | 97,373 | 78,268 |
| Operating loss | (5,344) | (5,585) | (16,369) | (16,374) |
| Financial income (expenses), net | 950 | (605) | 1,419 | 40 |
| Loss before income taxes | (4,394) | (6,190) | (14,950) | (16,334) |
| Income taxes | (641) | (303) | (964) | (509) |
| Net loss | $(5,035) | $(6,493) | $(15,914) | $(16,843) |
| Net loss per share of common stock, basic and diluted | $(0.18) | $(0.25) | $(0.59) | $(0.64) |
| Weighted average number of shares used in computing net loss per share of common stock, basic and diluted | 27,321,837 | 26,273,380 | 27,137,930 | 26,195,269 |

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

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(in thousands)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net loss | $ (5,035 ) | $ (6,493 ) | $ (15,914 ) | $ (16,843 ) |
| Other comprehensive income (loss): | | | | |
| Unrealized losses on short term investments | (10 ) | - | (10 ) | - |
| Unrealized gains (losses) on derivative instruments | 493 | (845 ) | 2,617 | 379 |
| Total other comprehensive income (loss) | 483 | (845 ) | 2,607 | 379 |
| Comprehensive loss | $ (4,552 ) | $ (7,338 ) | $ (13,307 ) | $ (16,464 ) |

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

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net loss | $(15,914) | $(16,843) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 1,284 | 1,066 |
| Stock-based compensation | 9,663 | 5,997 |
| Capital gain from disposal of fixed assets | (2) | - |
| Changes in assets and liabilities: | | |
| Trade receivables | 12,548 | 13,943 |
| Prepaid expenses and other current assets | (1,783) | 47 |
| Trade payables | 60 | (538) |
| Accrued expenses and other short term liabilities | 2,769 | 16 |
| Severance pay | (192) | 21 |
| Deferred revenues | (694) | (1,144) |
| Other long term liabilities | (355) | (224) |
| Net cash provided by operating activities | 7,384 | 2,341 |
| Cash flows from investing activities: | | |
| Decrease (increase) in short-term investments | (2,556) | 4,750 |
| Increase in long-term deposits | (160) | (27) |
| Increase in restricted cash | (49) | (7) |
| Proceeds on sales of property and equipment | 2 | - |
| Purchase of property and equipment | (2,534) | (1,447) |
| Net cash provided by (used in) investing activities | (5,297) | 3,269 |
| Cash flows from financing activities: | | |
| Proceeds from employee stock plans, net | 3,137 | 1,251 |
| Net cash provided by financing activities | 3,137 | 1,251 |
| Increase in cash and cash equivalents | 5,224 | 6,861 |
| Cash and cash equivalents at beginning of period | 48,315 | 49,241 |
| Cash and cash equivalents at end of period | $53,539 | $56,102 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | $140 | $96 |

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

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1:- GENERAL**

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

VSI has seven wholly-owned subsidiaries: Varonis Systems Ltd. (“VSL”) incorporated under the laws of Israel on November 24, 2004; Varonis (UK) Limited (“VSUK”) incorporated under the laws of England on March 14, 2007; Varonis Systems (Deutschland) GmbH (“VSG”) incorporated under the laws of Germany on July 6, 2011; Varonis France SAS (“VSF”) incorporated under the laws of France on February 22, 2012; Varonis Systems Corp. (“VSC”) incorporated under the laws of British Columbia, Canada on February 19, 2013; Varonis Systems (Ireland) Limited incorporated under the laws of Ireland on November 11, 2016; and Varonis Systems (Australia) Pty Ltd (“VSA”) incorporated under the laws of Victoria, Australia on February 28, 2017.

The Company’s software products and services allow enterprises to manage, analyze and secure enterprise data. The Company specializes in creating software that manages and protects enterprise data against insider threats, data breaches and cyberattacks by detecting and alerting on deviations from known behavioral baselines, identifying and mitigating exposures of sensitive data, and automating processes to secure enterprise data. Enterprise data under our scope is typically comprised of sensitive information that is stored in spreadsheets, emails, word processing documents, presentations, audio files, video files, 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. Through its products, DatAdvantage (including DatAlert and the Automation Engine), DataPrivilege, IDU Classification Framework, Data Transport Engine and DatAnswers, the software platform allows enterprises to protect sensitive data from insider threats and cyberattacks and realize the value of their enterprise data.

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

b. Basis of Presentation:

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with Article 10 of Regulation S-X, “Interim Financial Statements” and the rules and regulations for Form 10-Q of the Securities and

Exchange Commission (the “SEC”). Pursuant to those rules and regulations, the Company has condensed or omitted certain information and footnote disclosure it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

In management’s opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its consolidated financial position, results of operations and cash flows. The Company’s interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the 2016 consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for its fiscal year ended December 31, 2016 filed with the SEC on February 9, 2017 (the “2016 Form 10-K”). There have been no changes in the significant accounting policies from those that were disclosed in the audited consolidated financial statements for the fiscal year ended December 31, 2016 included in the 2016 Form 10-K, except as follows:

Effective as of January 1, 2017, the Company adopted Accounting Standards Update 2016-09, “Compensation—Stock Compensation (Topic 718)” (“ASU 2016-09”) on a modified, retrospective basis. ASU 2016-09 permits entities to make an accounting policy election related to how forfeitures will impact the recognition of compensation cost for stock-based compensation: to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures as they occur. Upon adoption of ASU 2016-09, the Company elected to change its accounting policy to account for forfeitures as they occur. The change was applied on a modified, retrospective basis with a cumulative-effect adjustment to retained earnings of $2,616 (which increased the accumulated deficit) as of January 1, 2017.

ASU 2016-09 also eliminates the requirement that excess tax benefits be realized as a reduction in current taxes payable before the associated tax benefit can be recognized as an increase in paid in capital. Approximately $7,131 of federal net operating losses and $718 of state net operating losses, neither of which was included in the deferred tax assets recognized in the statement of financial position as of December 31, 2016, have been attributed to tax deduction for stock-based compensation in excess of the related book expense. Under ASU 2016-09, these previously unrecognized deferred tax assets will be recognized on a modified, retrospective basis as of the start of the year in which the ASU 2016-09 is adopted; in this case as of January 1, 2017. The U.S. federal and state net operating losses and credits that were recognized as of January 1, 2017 have been offset by a valuation allowance. As a result, there is no cumulative-effect adjustment to retained earnings as of January 1, 2017.

Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the statement of cash flows. The Company is now required to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. The Company adopted this change prospectively.

c. Derivative Instruments:

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

The Company has established forecasted transaction currency risk management programs to protect against fluctuations in fair value and the volatility of future cash flows caused by changes in exchange rates. The Company’s currency risk management program includes forward foreign exchange contracts designated as cash flow hedges. These forward foreign exchange contracts generally mature within 12 months, and, as of June 30, 2017, the Company had entered into such contracts until January 2018. The Company does not enter into derivative financial instruments for trading purposes.

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

| | Assets as of June 30, 2017 (unaudited) | | Liabilities as of December 31, 2016 | |
|---|---|---|---|---|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |

| | | | | |
|---|---|---|---|---|
| Foreign exchange forward contract derivatives in cash flow hedging relationships - included in other current assets and accrued expenses and other short term liabilities | $24,780 | $2,138 | $46,116 | $(479) |

For the three and six months ended June 30, 2017, the unaudited consolidated statements of operations reflect a gain of approximately $653 and $918, respectively, related to the effective portion of foreign currency forward contracts. For the three and six months ended June 30, 2016, the unaudited consolidated statements of operations reflect a gain of approximately $154 and $82, respectively, related to the effective portion of foreign currency forward contracts. There was no ineffective portion for the three and six months ended June 30, 2017 and 2016.

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d. Cash, Cash Equivalents and Short-Term Investments:

The Company accounts for investments in marketable securities in accordance with ASC No. 320, "Investments—Debt and Equity Securities". The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash on hand, highly liquid investments in money market funds and various deposit accounts.

The Company considers all high quality investments purchased with original maturities at the date of purchase greater than three months to be short-term investments. Investments are available to be used for current operations, and are, therefore, classified as current assets even though maturities may extend beyond one year. Cash equivalents and short-term investments are classified as available for sale and are, therefore, recorded at fair value on the consolidated balance sheet, with any unrealized gains and losses reported in accumulated other comprehensive income (loss), which is reflected as a separate component of stockholders' equity in the Company's consolidated balance sheets, until realized. The Company uses the specific identification method to compute gains and losses on the investments. The amortized cost of securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included as a component of financial income, net in the consolidated statement of operations. Cash, cash equivalents and short-term investments consist of the following (in thousands):

| | As of June 30, 2017 (unaudited) | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Loss | Fair Value |
| Cash and cash equivalents | | | | |
| Cash | $40,083 | $ - | $ - | $40,083 |
| Money market funds | 12,456 | - | - | 12,456 |
| US Treasury securities | 1,000 | - | *) | 1,000 |
| Total | $53,539 | $ - | $ - | $53,539 |
| Short-term investments | | | | |
| US Treasury securities | $32,946 | $ - | $ (10) | $32,936 |
| Term bank deposits | 35,103 | - | - | 35,103 |
| Total | $68,049 | $ - | $ (10) | $68,039 |

*) Represents an amount lower than $ 1.

All the US Treasury securities in short-term investments have a stated effective maturity of less than 12 months as of June 30, 2017.

| | As of December 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Loss | Fair Value |
| Cash and cash equivalents | | | | |
| Cash | $42,175 | $ - | $ - | $42,175 |
| Money market funds | 6,140 | - | - | 6,140 |
| Total | $48,315 | $ - | $ - | $48,315 |
| Short-term investments | | | | |
| Term bank deposits | $65,493 | - | - | $65,493 |
| Total | $65,493 | $ - | $ - | $65,493 |

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The gross unrealized loss related to these short-term investments was due primarily to changes in interest rates. The Company reviews its short-term investments on a regular basis to evaluate whether or not any security has experienced an other than temporary decline in fair value. The Company considers factors such as length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issuer and its intent to sell, or whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's amortized cost basis. If the Company believes that an other than temporary decline exists in one of these securities, the Company writes down these investments to fair value. For debt securities, the portion of the write-down related to credit loss would be recorded to other income (expense), net in the Company's consolidated statements of operations. Any portion not related to credit loss would be recorded to accumulated other comprehensive income (loss), which is reflected as a separate component of stockholders' equity in the Company's condensed consolidated balance sheets. During the six months ended June 30, 2017, the Company did not consider any of its investments to be other-than-temporarily impaired.

e. Recently Issued Accounting Pronouncements:

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", an updated standard on revenue recognition and issued subsequent amendments to the initial guidance in March 2016, April 2016, May 2016 and December 2016 within ASU 2016-08, 2016-10, 2016-12, 2016-20, respectively. The new standards provide enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and US GAAP. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. ASU 2014-09 was initially scheduled to be effective for annual and interim reporting periods beginning after December 15, 2016 and may be adopted either on a full retrospective or modified retrospective approach. However, on July 9, 2015, the FASB approved a one year deferral of the effective date of ASU 2014-09. The revised effective date is for annual reporting periods beginning after December 15, 2017 and interim periods thereafter, with an early adoption permitted as of the original effective date. The Company is in the process of evaluating the effect the new revenue recognition standard will have on its consolidated financial statements and related disclosures but has not completed its evaluation and implementation process. The Company intends to complete this process in 2017 and will adopt the new standard on January 1, 2018, using the full retrospective method. Based on its preliminary evaluation to date, the Company believes adoption of the new standard may have a material impact on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-11, "Revenue Recognition: Customer Payments and Incentives", which clarifies the guidance in recognizing costs for consideration given by a vendor to a customer as a component of cost of sales. This ASU is effective for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases”, on the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in a manner similar to the accounting under existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840, "Leases". The guidance is effective for the interim and annual periods beginning on or after December 15, 2018, and early adoption is permitted. The Company is currently evaluating whether to early adopt this standard and the potential effect of the guidance on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash”, which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating whether to early adopt this standard and the potential effect of the guidance on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation: Scope of Modification Accounting*, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this standard on its consolidated financial statements.

**NOTE 2:- FAIR VALUE MEASUREMENTS**

The Company evaluates assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level to classify them for each reporting period. There have been no transfers between fair value measurements levels during the three months ended June 30, 2017.

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

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Observable inputs that reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Unobservable inputs reflecting our own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The following table sets forth the Company’s assets and liabilities that were measured at fair value as of June 30, 2017 and December 31, 2016 by level within the fair value hierarchy (in thousands):

| | As of June 30, 2017 (unaudited) | | | | As of December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level I | Level II | Level III | Fair Value | Level I | Level II | Level III | Fair Value |
| Financial assets: | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cash equivalents: | | | | | | | | |
| Money market funds | 12,456 | – | – | 12,456 | 6,140 | – | – | 6,140 |
| US Treasury securities | 1,000 | – | – | 1,000 | – | – | – | – |
| Short-term investments: | | | | | | | | |
| US Treasury securities | 32,936 | – | – | 32,936 | – | – | – | – |
| Term bank deposits | 35,103 | – | – | 35,103 | 65,493 | – | – | 65,493 |
| Other current assets: | | | | | | | | |
| Forward foreign exchange contracts | – | 2,138 | – | 2,138 | – | – | – | – |
| Financial liabilities: | | | | | | | | |
| Forward foreign exchange contracts | – | – | – | – | – | (479) | – | (479) |
| Total financial assets (liabilities) | $81,495 | $2,138 | $ – | $83,633 | $71,633 | $(479) | $ – | $71,154 |

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**NOTE 3:- COMMITMENTS AND CONTINGENT LIABILITIES**

a. Liens:

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

b. Lease Commitments:

The Company rents its facilities in all locations under operating leases with lease periods expiring from 2017 - 2026. The lease agreement of VSL includes extension options. VSL leases cars for its employees under operating lease agreements expiring at various dates from 2017 – 2020.

Aggregate minimum rental commitments under non-cancelable leases as of June 30, 2017 for the upcoming years were as follows:

| | (unaudited) |
|---|---|
| 2017 | $ 2,736 |
| 2018 | 4,872 |
| 2019 | 4,839 |
| 2020 | 3,486 |
| 2021 | 3,495 |
| Thereafter | 13,062 |
| | $ 32,490 |

Total rent expenses for the six months ended June 30, 2017 and the year ended December 31, 2016 were $1,814 and $3,258, respectively. The total minimum rent to be received in the future under the non-cancelable sublease as of June 30, 2017 was $1,121.

For leases that contain predetermined fixed escalations of the minimum rent, the Company recognizes the related rent expense on a straight-line basis from the date of possession of the property to the end of the initial lease term. The Company records any differences between the straight-line rent amounts and amounts payable under the leases as part of deferred rent, in accrued liabilities or long-term liabilities, as appropriate. Cash or lease incentives received upon entering into certain leases (“tenant allowances”) are recognized on a straight-line basis as a reduction to rent from the date of possession of the property through the end of the initial lease term. The Company records the unamortized portion of tenant allowances as a part of deferred rent, in current liabilities or other long-term liabilities, as appropriate.

c. Credit Facility:

On March 31, 2014, the Company entered into a promissory note and related security documents with Bank Leumi USA. The Company may borrow up to $7,000 against certain of its accounts receivable outstanding amount, based on several conditions, at an annual interest rate of the Wall Street Journal Prime Rate less 0.15%. As of June 30, 2017, that rate amounted to 4.10%. This promissory note enables the Company, among other things, to engage in foreign currency hedging transactions with Bank Leumi USA to manage exposure to foreign currency risk without restricted cash requirements. The Company may borrow under the promissory note until August 15, 2017 at which time the principal sum of each such loan, together with accrued and unpaid interest payable, will become due and payable. As of June 30, 2017, the Company had no balance outstanding under the promissory note. As part of the transaction, the Company granted the lender a security interest in its personal property, excluding intellectual property and other intangible assets. The promissory note also contains customary events of default.

**NOTE 4:- STOCKHOLDERS' EQUITY**

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

On November 14, 2013, the Company's board of directors adopted the Varonis Systems, Inc. 2013 Omnibus Equity Incentive Plan (the "2013 Plan") which was subsequently approved by the Company's stockholders. The Company initially reserved 1,904,633 shares of common stock available for issuance under the 2013 Plan to employees, directors, officers and consultants of the Company and its subsidiaries. The number of shares of common stock available for issuance under the 2013 Plan was increased on January 1, 2016 and will be increased on each January 1 thereafter by four percent (4%) of the number of shares of common stock issued and outstanding on each December 31 immediately prior to the date of increase (rounded down to the nearest whole share), but the amount of each increase will be limited to the number of shares of common stock necessary to bring the total number of shares of Common Stock available for grant and issuance under the 2013 Plan to five percent (5%) of the number of shares of common stock issued and outstanding on each December 31. On January 1, 2016 and 2017, the share reserve under the 2013 Plan was automatically increased by 1,042,766 and 1,072,870 shares, respectively. Awards granted under the 2013 Plan generally vest over four years. Any award that is forfeited or canceled before expiration becomes available for future grants under the 2013 Plan.

A summary of employees' stock options activities during the six months ended June 30, 2017 is as follows:

| | Six Months Ended June 30, 2017 (unaudited) | | | |
|---|---|---|---|---|
| | Number | Weighted average exercise price | Aggregate intrinsic value (in thousands) | Weighted average remaining contractual life (years) |
| Options outstanding as of January 1, 2017 | 2,388,348 | $ 15.243 | $ 30,025 | 5.861 |
| Granted | - | $ - | | |
| Exercised | (330,351 ) | $ 10.324 | | |
| Forfeited | (72,893 ) | $ 18.148 | | |
| Options outstanding as of June 30, 2017 | 1,985,104 | $ 15.941 | $ 42,589 | 5.035 |
| Options exercisable at the end of the period | 1,633,271 | $ 14.216 | $ 37,856 | 4.624 |

The aggregate intrinsic value in the table above represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on the last date of the exercise period. Total intrinsic value of options exercised for the six months ended June 30, 2017 was $7,500.

b. The options outstanding as of June 30, 2017 (unaudited) have been separated into ranges of exercise price as follows:

| Range of exercise price | | | Options outstanding as of June 30, 2017 | Weighted average remaining contractual life (years) | Weighted average exercise price | Options exercisable as of June 30, 2017 | Weighted average remaining contractual life (years) | Weighted average exercise price of options exercisable |
|---|---|---|---|---|---|---|---|---|
| $1.039 | - | $1.576 | 575,859 | 1.855 | $1.329 | 575,859 | 1.855 | $1.329 |
| $6.230 | - | 8.800 | 70,930 | 4.266 | $7.032 | 70,930 | 4.266 | $7.032 |
| $12.470 | - | 16.870 | 297,114 | 6.172 | $13.429 | 263,780 | 5.859 | $12.995 |
| $19.510 | - | 21.660 | 475,348 | 6.602 | $21.202 | 311,878 | 6.512 | $21.200 |
| $22.010 | - | 24.230 | 269,316 | 6.335 | $22.270 | 204,808 | 6.316 | $22.305 |
| | $29.880 | | 150,887 | 7.649 | $29.880 | 86,643 | 7.649 | $29.880 |
| | $39.860 | | 145,650 | 5.435 | $39.860 | 119,373 | 5.435 | $39.860 |