

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022
OR

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

Commission File Number: 001-39492

JFrog Ltd.

(Exact name of Registrant as specified in its charter)

Israel

(State or other jurisdiction of
incorporation or organization)

98-0680649

(I.R.S. Employer
Identification Number)

270 E. Caribbean Drive
Sunnyvale, California 94089
(408) 329-1540

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, NIS 0.01 par value	FROG	The Nasdaq Global Select Market

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 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. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

- | | |
|---|--|
| <input checked="" type="checkbox"/> Large accelerated filer | <input type="checkbox"/> Accelerated filer |
| <input type="checkbox"/> Non-accelerated filer | <input type="checkbox"/> Smaller reporting company |
| <input type="checkbox"/> Emerging growth company | |

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 No

As of April 29, 2022, the registrant had 98,799,956 ordinary shares, NIS 0.01 par value per share, outstanding.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, gross profit, operating expenses, operating cash flow and free cash flow, and our ability to achieve, and maintain, future profitability;
- market acceptance of our products;
- anticipated trends, growth rates and challenges in our business and in the markets in which we operate;
- the effects of increased competition in our markets and our ability to compete effectively;
- our ability to maintain and expand our customer base, including by attracting new customers;
- our ability to successfully expand in our existing markets and into new markets;
- our ability to maintain the security and availability of our software;
- our ability to maintain or increase our net dollar retention rate;
- our ability to develop new products, or enhancements to our existing products, and bring them to market in a timely manner;
- our business model and our ability to effectively manage our growth and associated investments;
- our ability to integrate and realize anticipated synergies from acquisitions of complementary businesses;
- beliefs and objectives for future operations, including regarding our market opportunity;
- our relationships with third parties, including our technology partners and cloud providers;
- our ability to maintain, protect, and enhance our intellectual property rights;
- our ability to successfully defend litigation brought against us;
- our ability to attract and retain qualified employees and key personnel;
- sufficiency of cash to meet cash needs for at least the next 12 months;
- our ability to comply with laws and regulations that currently apply or become applicable to our business in Israel, the United States and internationally;
- our expectations about the impact of natural disasters, public health epidemics, such as COVID-19, protests or riots, and geopolitical tensions or war, such as the war in Ukraine, on our business, results of operations and financial condition; and
- the future trading prices of our ordinary shares.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “*Risk Factors*” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. 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 described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. 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. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

JFROG LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	As of	
	March 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 59,577	\$ 68,284
Short-term investments	368,073	352,844
Accounts receivable, net	49,389	50,483
Deferred contract acquisition costs	5,949	5,271
Prepaid expenses and other current assets	24,363	22,140
Total current assets	507,351	499,022
Property and equipment, net	7,377	6,689
Deferred contract acquisition costs, noncurrent	10,499	9,120
Operating lease right-of-use assets	24,235	25,999
Intangible assets, net	45,138	47,980
Goodwill	247,955	247,776
Other assets, noncurrent	13,841	15,942
Total assets	<u>\$ 856,396</u>	<u>\$ 852,528</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 12,050	\$ 10,868
Accrued expenses and other current liabilities	28,891	27,954
Operating lease liabilities	7,205	7,293
Deferred revenue	134,611	129,149
Total current liabilities	182,757	175,264
Deferred revenue, noncurrent	17,772	17,957
Operating lease liabilities, noncurrent	17,943	20,014
Other liabilities, noncurrent	1,406	712
Total liabilities	219,878	213,947
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred shares, NIS 0.01 par value per share; 50,000,000 shares authorized; 0 issued and outstanding as of March 31, 2022 and December 31, 2021	—	—
Ordinary shares, NIS 0.01 par value per share, 500,000,000 shares authorized; 98,641,858 and 97,312,040 shares issued and outstanding as of March 31, 2022 and December 31, 2021, respectively	276	272
Additional paid-in capital	795,808	776,690
Accumulated other comprehensive income (loss)	(870)	611
Accumulated deficit	(158,696)	(138,992)
Total shareholders' equity	636,518	638,581
Total liabilities and shareholders' equity	<u>\$ 856,396</u>	<u>\$ 852,528</u>

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

JFROG LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended March 31,	
	2022	2021
Revenue:		
Subscription—self-managed and SaaS	\$ 59,069	\$ 41,338
License—self-managed	4,627	3,749
Total subscription revenue	63,696	45,087
Cost of revenue:		
Subscription—self-managed and SaaS	13,643	8,236
License—self-managed	220	191
Total cost of revenue—subscription	13,863	8,427
Gross profit	49,833	36,660
Operating expenses:		
Research and development	27,101	13,836
Sales and marketing	29,180	19,765
General and administrative	12,691	13,671
Total operating expenses	68,972	47,272
Operating loss	(19,139)	(10,612)
Interest and other income, net	273	360
Loss before income taxes	(18,866)	(10,252)
Income tax expense (benefit)	838	(2,357)
Net loss	\$ (19,704)	\$ (7,895)
Net loss per share, basic and diluted	\$ (0.20)	\$ (0.09)
Weighted-average shares used in computing net loss per share, basic and diluted	97,883,814	92,679,756

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

JFROG LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(unaudited)

	<u>Three Months Ended March 31,</u>	
	<u>2022</u>	<u>2021</u>
Net loss	\$ (19,704)	\$ (7,895)
Other comprehensive loss, net of tax:		
Unrealized losses on available-for-sale marketable securities, net	(717)	(30)
Unrealized losses on derivative instruments, net	(764)	(611)
Other comprehensive loss	(1,481)	(641)
Comprehensive loss	<u>\$ (21,185)</u>	<u>\$ (8,536)</u>

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

JFROG LTD.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Three Months Ended March 31, 2022					
	Ordinary Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount				
Balance as of December 31, 2021	97,312,040	\$ 272	\$ 776,690	\$ 611	\$ (138,992)	\$ 638,581
Issuance of ordinary shares upon exercise of share options	1,017,669	3	1,792	—	—	1,795
Issuance of ordinary shares upon release of restricted share units	109,416	—	—	—	—	—
Issuance of ordinary shares under the employee share purchase plan	154,550	1	3,252	—	—	3,253
Issuance of ordinary shares related to business combination	48,183	—	—	—	—	—
Share-based compensation expense	—	—	14,074	—	—	14,074
Other comprehensive loss, net of tax	—	—	—	(1,481)	—	(1,481)
Net loss	—	—	—	—	(19,704)	(19,704)
Balance as of March 31, 2022	<u>98,641,858</u>	<u>\$ 276</u>	<u>\$ 795,808</u>	<u>\$ (870)</u>	<u>\$ (158,696)</u>	<u>\$ 636,518</u>

	Three Months Ended March 31, 2021					
	Ordinary Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount				
Balance as of December 31, 2020	92,112,447	\$ 257	\$ 628,054	\$ 372	\$ (74,789)	\$ 553,894
Issuance of ordinary shares upon exercise of share options	1,305,571	4	2,286	—	—	2,290
Issuance of ordinary shares related to business combination	49,823	—	—	—	—	—
Share-based compensation expense	—	—	11,750	—	—	11,750
Other comprehensive loss, net of tax	—	—	—	(641)	—	(641)
Net loss	—	—	—	—	(7,895)	(7,895)
Balance as of March 31, 2021	<u>93,467,841</u>	<u>\$ 261</u>	<u>\$ 642,090</u>	<u>\$ (269)</u>	<u>\$ (82,684)</u>	<u>\$ 559,398</u>

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

JFROG LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (19,704)	\$ (7,895)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,519	1,006
Share-based compensation expense	14,074	11,750
Non-cash operating lease expense	1,806	1,278
Net amortization of premium or discount on investments	1,628	1,343
Changes in operating assets and liabilities:		
Accounts receivable	1,094	(14,375)
Prepaid expenses and other assets	(889)	(2,386)
Deferred contract acquisition costs	(2,057)	(1,384)
Accounts payable	960	(954)
Accrued expenses and other liabilities	1,524	3,658
Operating lease liabilities	(2,201)	(1,367)
Deferred revenue	5,277	18,137
Net cash provided by operating activities	<u>5,031</u>	<u>8,811</u>
Cash flows from investing activities:		
Purchases of short-term investments	(92,211)	(88,580)
Maturities and sales of short-term investments	74,637	61,825
Purchases of property and equipment	(1,143)	(1,135)
Payments related to business combination	(179)	—
Net cash used in investing activities	<u>(18,896)</u>	<u>(27,890)</u>
Cash flows from financing activities:		
Proceeds from exercise of share options	1,795	2,290
Proceeds from employee share purchase plan	3,253	—
Proceeds from employee equity transactions, net of payments to be remitted to tax authorities	107	(1,008)
Net cash provided by financing activities	<u>5,155</u>	<u>1,282</u>
Net decrease in cash, cash equivalents, and restricted cash	(8,710)	(17,797)
Cash, cash equivalents, and restricted cash—beginning of period	68,540	164,739
Cash, cash equivalents, and restricted cash—end of period	<u>\$ 59,830</u>	<u>\$ 146,942</u>
Reconciliation of cash, cash equivalents, and restricted cash within the Condensed Consolidated Balance Sheets to the amounts shown in the Condensed Consolidated Statements of Cash Flows above:		
Cash and cash equivalents	\$ 59,577	\$ 146,676
Restricted cash included in prepaid expenses and other current assets	13	14
Restricted cash included in other assets, noncurrent	240	252
Total cash, cash equivalents, and restricted cash	<u>\$ 59,830</u>	<u>\$ 146,942</u>

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

JFROG LTD.
NOTES TO CONDENSED CONSOLIDATED STATEMENTS
(unaudited)

1. Organization and Description of Business

JFrog Ltd. (together with its subsidiaries, “JFrog”, or the “Company”) was incorporated under the laws of the State of Israel in 2008. JFrog provides an end-to-end, hybrid, universal DevOps Platform that powers the software supply chain, enabling organizations to continuously deliver software updates across any system. JFrog’s platform is the critical bridge between software development and deployment of that software, paving the way for the modern DevOps paradigm. The Company enables organizations to build and release software faster and more securely while empowering developers to be more efficient. The Company’s solutions are designed to run on-premise, in public or private clouds, or in hybrid environments.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting, and include the accounts of JFrog Ltd. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of December 31, 2021 was derived from the audited consolidated financial statements as of that date, but does not include all of the disclosures, including certain notes required by GAAP on an annual reporting basis. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2021, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on February 11, 2022.

In management’s opinion, the unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and reflect all adjustments, which include only normal recurring adjustments necessary for the fair presentation of the Company’s financial position as of March 31, 2022 and the Company’s consolidated results of operations, shareholders’ equity, and cash flows for the three months ended March 31, 2022 and 2021. The results for the three months ended March 31, 2022 are not necessarily indicative of the results to be expected for the full year ending December 31, 2022 or any other future interim or annual period.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods and accompanying notes. Significant items subject to such estimates and assumptions include, but are not limited to, the allocation of transaction price among various performance obligations, the estimated customer life on deferred contract acquisition costs, the allowance for credit losses, the fair value of financial assets and liabilities, including the fair value of derivatives, the fair value of acquired intangible assets and goodwill, the useful lives of acquired intangible assets and property and equipment, the incremental borrowing rate for operating leases, loss contingency, the fair value of share purchase rights granted under the Company’s employee share purchase plan, and the valuation of deferred tax assets and uncertain tax positions. The Company bases these estimates on historical and anticipated results, trends and various other assumptions that it believes are reasonable under the circumstances, including assumptions as to future events. Actual results could differ from those estimates.

Significant Accounting Policies

The Company’s significant accounting policies are discussed in Note 2, *Summary of Significant Accounting Policies*, in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. There have been no significant changes to these policies during the three months ended March 31, 2022.

Geographical Information

Revenue by geographical region can be found in the revenue recognition disclosure in Note 3 below. The following table presents the Company's long-lived assets by geographic region, which consists of property and equipment, net and operating lease right-of-use assets:

	March 31, 2022	December 31, 2021
	(in thousands)	
United States	\$ 10,516	\$ 10,845
Israel	17,564	18,165
Rest of world	3,532	3,678
Total long-lived assets	<u>\$ 31,612</u>	<u>\$ 32,688</u>

3. Revenue Recognition

Disaggregation of Revenue

The following table presents revenue by category:

	Three Months Ended March 31,			
	2022		2021	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue
	(in thousands, except percentages)			
Self-managed subscription	\$ 46,922	74 %	\$ 34,823	77 %
Subscription	42,295	67	31,074	69
License	4,627	7	3,749	8
SaaS	16,774	26	10,264	23
Total subscription revenue	<u>\$ 63,696</u>	<u>100 %</u>	<u>\$ 45,087</u>	<u>100 %</u>

The following table summarizes revenue by region based on the shipping address of customers:

	Three Months Ended March 31,			
	2022		2021	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue
	(in thousands, except percentages)			
United States	\$ 39,717	62 %	\$ 28,292	63 %
Israel	1,623	3	893	2
Rest of world	22,356	35	15,902	35
Total subscription revenue	<u>\$ 63,696</u>	<u>100 %</u>	<u>\$ 45,087</u>	<u>100 %</u>

Contract Balances

Of the \$147.1 million and \$102.8 million of deferred revenue recorded as of December 31, 2021 and 2020, respectively, the Company recognized \$47.9 million and \$32.9 million as revenue during the three months ended March 31, 2022 and 2021, respectively.

Remaining Performance Obligation

The Company's remaining performance obligations are comprised of product and service revenue not yet delivered. As of March 31, 2022, the aggregate amount of the transaction price allocated to remaining performance obligations was \$172.1 million, which consists of billed considerations of \$152.4 million and unbilled considerations of \$19.7 million, that the Company expects to recognize as revenue. As of March 31, 2022, the Company expects to recognize 83% of its remaining performance obligations as revenue over the next 12 months, and the remainder thereafter.

Cost to Obtain a Contract

The following table represents a rollforward of deferred contract acquisition costs:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Beginning balance	\$ 14,391	\$ 8,196
Additions to deferred contract acquisition costs	3,571	2,362
Amortization of deferred contract acquisition costs	(1,514)	(978)
Ending balance	\$ 16,448	\$ 9,580
Deferred contract acquisition costs (to be recognized in next 12 months)	\$ 5,949	\$ 3,655
Deferred contract acquisition costs, noncurrent	10,499	5,925
Total deferred contract acquisition costs	\$ 16,448	\$ 9,580

4. Short-Term Investments

Short-term investments consisted of the following:

	March 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Bank deposits	\$ 85,191	\$ —	\$ —	\$ 85,191
Commercial paper	55,434	—	(251)	55,183
Corporate debt securities	119,531	2	(444)	119,089
Municipal securities	70,875	—	(143)	70,732
Government and agency debt	38,023	—	(145)	37,878
Marketable securities	283,863	2	(983)	282,882
Total short-term investments	\$ 369,054	\$ 2	\$ (983)	\$ 368,073

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Bank deposits	\$ 90,704	\$ —	\$ —	\$ 90,704
Commercial paper	56,448	—	(37)	56,411
Corporate debt securities	109,212	1	(151)	109,062
Municipal securities	71,046	—	(50)	70,996
Government and agency debt	25,698	—	(27)	25,671
Marketable securities	262,404	1	(265)	262,140
Total short-term investments	\$ 353,108	\$ 1	\$ (265)	\$ 352,844

As of March 31, 2022, the contractual maturities of the Company's marketable securities were all less than one year.

As of March 31, 2022 and December 31, 2021, the allowance for credit loss for the marketable securities was not material. See Note 12, *Accumulated Other Comprehensive Income (Loss)*, for the realized gains or losses from available-for-sale marketable securities that were reclassified out of accumulated other comprehensive income (loss) ("AOCI") during the periods presented.

5. Fair Value Measurements

The following table presents information about the Company's financial instruments that are measured at fair value on a recurring basis:

	Fair Value	March 31, 2022	
		Level 1 (in thousands)	Level 2
Financial Assets:			
Money market funds	\$ 9,585	\$ 9,585	\$ —
Commercial paper	1,998	—	1,998
Cash equivalents	11,583	9,585	1,998
Bank deposits	85,191	—	85,191
Commercial paper	55,183	—	55,183
Corporate debt securities	119,089	—	119,089
Municipal securities	70,732	—	70,732
Government and agency debt	37,878	—	37,878
Short-term investments	368,073	—	368,073
Foreign currency contracts designated as hedging instruments included in prepaid expenses and other current assets	272	—	272
Foreign currency contracts not designated as hedging instruments included in prepaid expenses and other current assets	134	—	134
Restricted bank deposits included in prepaid expenses and other current assets	13	—	13
Restricted bank deposits included in other assets, noncurrent	240	—	240
Total financial assets	<u>\$ 380,315</u>	<u>\$ 9,585</u>	<u>\$ 370,730</u>
Financial Liabilities:			
Foreign currency contracts designated as hedging instruments included in accrued expenses and other current liabilities	\$ 161	\$ —	\$ 161
Foreign currency contracts not designated as hedging instruments included in accrued expenses and other current liabilities	8	—	8
Total financial liabilities	<u>\$ 169</u>	<u>\$ —</u>	<u>\$ 169</u>

	December 31, 2021		
	Fair Value	Level 1	Level 2
	(in thousands)		
Financial Assets:			
Money market funds	\$ 21,670	\$ 21,670	\$ —
Municipal securities	175	—	175
Cash equivalents	21,845	21,670	175
Bank deposits	90,704	—	90,704
Commercial paper	56,411	—	56,411
Corporate debt securities	109,062	—	109,062
Municipal securities	70,996	—	70,996
Government and agency debt	25,671	—	25,671
Short-term investments	352,844	—	352,844
Foreign currency contracts designated as hedging instruments included in prepaid expenses and other current assets	891	—	891
Foreign currency contracts not designated as hedging instruments included in prepaid expenses and other current assets	43	—	43
Restricted bank deposits included in prepaid expenses and other current assets	13	—	13
Restricted bank deposits included in other assets, noncurrent	243	—	243
Total financial assets	<u>\$ 375,879</u>	<u>\$ 21,670</u>	<u>\$ 354,209</u>
Financial Liabilities:			
Foreign currency contracts designated as hedging instruments included in accrued expenses and other current liabilities	\$ 16	\$ —	\$ 16
Foreign currency contracts not designated as hedging instruments included in accrued expenses and other current liabilities	5	—	5
Total financial liabilities	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ 21</u>

The Company classifies its money market fund within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company classifies its bank deposits, commercial paper, corporate debt securities, municipal securities, government and agency debt, and derivative financial instruments within Level 2 because they are valued using inputs other than quoted prices which are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded. As of March 31, 2022 and December 31, 2021, the Company did not have any assets or liabilities valued based on Level 3 valuations.

6. Derivative Financial Instruments and Hedging

The Company enters into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks, mainly the exposure to changes in the exchange rate of the New Israeli Shekel (“NIS”) against the U.S. dollar that are associated with forecasted future cash flows and certain existing assets and liabilities for up to twelve months. The Company’s primary objective in entering into these contracts is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The Company does not use derivative instruments for trading or speculative purposes.

Notional Amount of Foreign Currency Contracts

The notional amounts of outstanding foreign currency contracts in U.S. dollar as of the periods presented were as follows:

	March 31, 2022	December 31, 2021
	(in thousands)	
Derivatives Designated as Hedging Instruments:		
Foreign currency contracts	\$ 48,118	\$ 45,971
Derivatives Not Designated as Hedging Instruments:		
Foreign currency contracts	8,955	4,975
Total derivative instruments	<u>\$ 57,073</u>	<u>\$ 50,946</u>

Effect of Foreign Currency Contracts on the Condensed Consolidated Statements of Operations

Derivative instruments that hedge the exposure to variability in expected future cash flows are designated as cash flow hedges. The Company records changes in the fair value of these derivatives in AOCI in the Condensed Consolidated Balance Sheets, until the forecasted transaction occurs. Upon occurrence, the Company reclassifies the related gains or losses on the derivative to the same financial statement line item in the Condensed Consolidated Statements of Operations to which the derivative relates. In case the Company discontinues cash flow hedges, it records the related amount in interest and other income, net, on the Condensed Consolidated Statements of Operations. Derivative instruments that hedge the exposure to variability in the fair value of assets or liabilities are currently not designated as hedges for financial reporting purposes. The Company records changes in the fair value of these derivatives in interest and other income, net in the Condensed Consolidated Statements of Operations.

The effect of foreign currency contracts on the condensed consolidated statements of operations during the periods presented were as follows:

	Derivatives Designated as Hedging Instruments		Derivatives Not Designated as Hedging Instruments	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2022	2021	2022	2021
(in thousands)				
Condensed Statement of Operations Location:				
Cost of revenue: subscription–self-managed and SaaS	\$ (6)	\$ 19	\$ —	\$ —
Research and development	(55)	120	—	—
Sales and marketing	(11)	36	—	—
General and administrative	(15)	43	—	—
Interest and other income, net	8	—	22	107
Total gains (losses) recognized in earnings	\$ (79)	\$ 218	\$ 22	\$ 107

Effect of Foreign Currency Contracts on Accumulated Other Comprehensive Income

Net unrealized gains (losses) of foreign currency contracts designated as hedging instruments, net of tax, are recorded in AOCI. See Note 12, *Accumulated Other Comprehensive Income (Loss)*, for the effect on other comprehensive income (loss) and the reclassification out of AOCI during the periods presented. All of net deferred gains in AOCI as of March 31, 2022 are expected to be recognized as operating expenses in the same financial statement line item in the Condensed Consolidated Statements of Operations to which the derivative relates over the next twelve months.

7. Condensed Consolidated Balance Sheet Components

Property and Equipment, Net

Property and equipment, net consisted of the following:

	March 31, 2022	December 31, 2021
	(in thousands)	
Computer and software	\$ 6,742	\$ 5,955
Furniture and office equipment	2,271	2,248
Leasehold improvements	5,432	4,893
Property and equipment, gross	14,445	13,096
Less: accumulated depreciation and amortization	(7,068)	(6,407)
Property and equipment, net	\$ 7,377	\$ 6,689

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	March 31, 2022	December 31, 2021
	(in thousands)	
Accrued compensation and benefits	\$ 17,641	\$ 17,601
Accrued expenses	11,250	10,353
Accrued expenses and other current liabilities	\$ 28,891	\$ 27,954

8. Goodwill and Intangible Assets, Net

Goodwill

The following table represents the changes to goodwill:

	<u>Carrying Amount</u> <u>(in thousands)</u>
Balance as of December 31, 2021	\$ 247,776
Purchase accounting adjustment	179
Balance as of March 31, 2022	\$ 247,955

Intangible Assets, Net

Intangible assets consisted of the following as of March 31, 2022:

	<u>Gross Fair Value</u>	<u>Accumulated Amortization</u> <u>(in thousands)</u>	<u>Net Book Value</u>	<u>Weighted-Average Remaining Useful Life</u> <u>(in years)</u>
Developed technology	\$ 50,347	\$ (9,617)	\$ 40,730	4.1
Customer relationships	5,541	(1,133)	4,408	4.9
Total	<u>\$ 55,888</u>	<u>\$ (10,750)</u>	<u>\$ 45,138</u>	

Intangible assets consisted of the following as of December 31, 2021:

	<u>Gross Fair Value</u>	<u>Accumulated Amortization</u> <u>(in thousands)</u>	<u>Net Book Value</u>	<u>Weighted-Average Remaining Useful Life</u> <u>(in years)</u>
Developed technology	\$ 50,347	\$ (7,011)	\$ 43,336	4.3
Customer relationships	5,541	(897)	4,644	5.1
Total	<u>\$ 55,888</u>	<u>\$ (7,908)</u>	<u>\$ 47,980</u>	

Amortization expenses for intangible assets were \$2.8 million and \$0.4 million for the three months ended March 31, 2022 and 2021, respectively.

The expected future amortization expenses by year related to the intangible assets as of March 31, 2022 are as follows:

	<u>March 31, 2022</u> <u>(in thousands)</u>
Year Ending December 31,	
2022 (Remainder)	\$ 8,523
2023	11,291
2024	10,590
2025	9,110
2026	5,241
Thereafter	383
Total	<u>\$ 45,138</u>

9. Leases

The Company leases its office facilities under non-cancelable agreements that expire at various dates through August 2026.

Components of operating lease expense were as follows:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Operating lease cost	\$ 1,860	\$ 1,348
Short-term lease cost	88	43
Variable lease cost	92	90
Total operating lease cost	<u>\$ 2,040</u>	<u>\$ 1,481</u>

Supplementary cash flow information related to operating leases was as follows:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Cash paid for operating leases	\$ 1,887	\$ 1,163

As of March 31, 2022, the weighted-average discount rate is 0.9% and the weighted-average remaining term is 3.7 years. Maturities of the Company's operating lease liabilities as of March 31, 2022 were as follows:

	March 31, 2022
	(in thousands)
Year Ending December 31,	
2022 (Remainder)	\$ 5,549
2023	7,151
2024	6,114
2025	4,908
2026	1,823
Total operating lease payments	<u>25,545</u>
Less: imputed interest	(397)
Total operating lease liabilities	<u>\$ 25,148</u>

10. Commitments and Contingencies

Non-cancelable Purchase Obligations

In the normal course of business, the Company enters into non-cancelable purchase commitments with various parties mainly for hosting services, as well as software products and services. As of March 31, 2022, the Company had outstanding non-cancelable purchase obligations with a term of 12 months or longer as follows:

	March 31, 2022
	(in thousands)
Year Ending December 31,	
2022 (Remainder)	\$ 6,825
2023	23,607
2024	18,273
2025	25,917
Total	<u>\$ 74,622</u>

Indemnifications and Contingencies

The Company enters into indemnification provisions under certain agreements with other parties in the ordinary course of business. In its customer agreements, the Company has agreed to indemnify, defend and hold harmless the indemnified party for third party claims and related losses suffered or incurred by the indemnified party from actual or threatened third-party intellectual property infringement claims. For certain large or strategic customers, the Company has agreed to indemnify, defend and hold harmless the indemnified party for non-compliance with certain additional representations and warranties made by the Company.

Grants from Israeli Innovation Authority

The Company has received in the past grants from the Israeli Innovation Authority (“IIA”) and repaid them in full. Still, as any grant recipient, the Company is subject to the provisions of the Israeli Law for the Encouragement of Research, Development and Technological Innovation in the Industry and the regulations and guidelines thereunder (the “Innovation Law”). Pursuant to the Innovation Law, there are restrictions related to transferring intellectual property outside of Israel. Such transfer requires the approval from the IIA. The approval may be subject to a maximum additional payment amount of approximately \$6.0 million. In the past, the Company received an approval from the IIA to perform a limited development of IIA funded know-how outside of Israel, subject to the terms specified in the IIA approval, including that all of its core R&D activities will remain in Israel.

Legal Proceedings

In the ordinary course of business, the Company may be subject from time to time to various proceedings, lawsuits, disputes, or claims. The Company investigates these claims as they arise. Although claims are inherently unpredictable, the Company is currently not aware of any matters that, if determined adversely to the Company, would individually or taken together, have a material adverse effect on its business, financial position, results of operations, or cash flows.

Former Company sales employees (the “Former Employees”), on behalf of themselves and other non-exempt sales employees, alleged the violation of various wage and hour laws and have sought to recover unpaid wages, statutory penalties, civil penalties, liquidated damages, and attorney’s fees pursuant to certain California and federal laws. The Company denies the allegations. The Company and Former Employees have agreed to resolve the dispute amicably for approximately \$2.6 million, and are currently negotiating the final settlement agreement. The settlement is subject to an arbitrator’s approval. The company has accrued the estimated settlement amount as part of sales and marketing expenses during the fourth quarter of 2021.

11. Shareholders’ Equity and Equity Incentive Plans**Equity Incentive Plans**

On January 1, 2022, the number of ordinary shares authorized for issuance under the 2020 Equity Incentive Plan (the “2020 Plan”) automatically increased by 5,541,716 shares pursuant to the terms of the 2020 Plan.

Share Options

A summary of share option activity under the Company’s equity incentive plans and related information is as follows:

	Options Outstanding			Aggregate Intrinsic Value
	Outstanding Share Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	
		(in thousands, except share, life and per share data)		
Balance as of December 31, 2021	9,865,601	\$ 7.10	6.0	\$ 224,538
Exercised	(1,017,669)	\$ 1.76		\$ 23,921
Forfeited	(175,993)	\$ 12.70		
Balance as of March 31, 2022	8,671,939	\$ 7.61	6.1	\$ 169,763
Exercisable as of March 31, 2022	5,133,740	\$ 4.55	5.2	\$ 115,458

The weighted-average grant date fair value of options granted during the three months ended March 31, 2021 was \$42.00. The total intrinsic value of option exercised during the three months ended March 31, 2021 was \$75.4 million.

Restricted Share Units

A summary of RSU activity under the Company's equity incentive plan and related information is as follows:

	RSUs	
	Unvested RSUs	Weighted-Average Grant Date Fair Value Per Share
Unvested as of December 31, 2021	3,376,569	\$ 46.03
Granted	1,063,034	\$ 25.67
Vested	(109,416)	\$ 57.22
Canceled/forfeited	(217,619)	\$ 44.51
Unvested as of March 31, 2022	<u>4,112,568</u>	<u>\$ 40.55</u>

The weighted-average grant date fair value of RSUs granted during the three months ended March 31, 2021 was \$64.33. The total release date fair value of RSUs was \$2.7 million during the three months ended March 31, 2022. No RSUs vested during the three months ended March 31, 2021.

Employee Share Purchase Plan

On January 1, 2022, the number of ordinary shares authorized for issuance under the 2020 Employee Share Purchase Plan ("ESPP") automatically increased by 974,712 shares pursuant to the terms of ESPP. 154,550 ordinary shares were purchased during the three months ended March 31, 2022.

Shares Reserved for Future Issuance

The Company has the following ordinary shares reserved for future issuance:

	March 31, 2022
Outstanding share options	8,671,939
Outstanding RSUs	4,112,568
Issuable ordinary shares related to business combinations	110,932
Shares available for future issuance under the 2020 Plan	17,614,639
Shares available for future issuance under ESPP	3,748,094
Total ordinary shares reserved	<u>34,258,172</u>

Share-Based Compensation

The share-based compensation expense by line item in the accompanying condensed consolidated statements of operations is summarized as follows:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Cost of revenue: subscription–self-managed and SaaS	\$ 1,306	\$ 762
Research and development	5,132	1,829
Sales and marketing	4,755	2,723
General and administrative	2,881	6,436
Total share-based compensation expense	<u>\$ 14,074</u>	<u>\$ 11,750</u>

As of March 31, 2022, unrecognized share-based compensation cost related to unvested share-based compensation awards was \$179.8 million, which is expected to be recognized over a weighted-average period of 3.2 years.

12. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in AOCI by component, net of tax, during the periods presented:

	Net Unrealized Losses on Available-for-Sale Marketable Securities	Net Unrealized Gains (losses) on Derivatives Designated as Hedging Instruments (in thousands)	Total
Balance as of December 31, 2021	\$ (264)	\$ 875	\$ 611
Other comprehensive loss before reclassifications	(717)	(843)	(1,560)
Net losses reclassified from AOCI	—	79	79
Other comprehensive loss	(717)	(764)	(1,481)
Balance as of March 31, 2022	<u>\$ (981)</u>	<u>\$ 111</u>	<u>\$ (870)</u>

	Net Unrealized Losses on Available-for-Sale Marketable Securities	Net Unrealized Gains (Losses) on Derivatives Designated as Hedging Instruments (in thousands)	Total
Balance as of December 31, 2020	\$ (69)	\$ 441	\$ 372
Other comprehensive loss before reclassifications	(30)	(393)	(423)
Net gains reclassified from AOCI	—	(218)	(218)
Other comprehensive loss	(30)	(611)	(641)
Balance as of March 31, 2021	<u>\$ (99)</u>	<u>\$ (170)</u>	<u>\$ (269)</u>

13. Income Taxes

The Company's quarterly tax provision, and estimates of its annual effective tax rate, is subject to variation due to several factors, including variability in pre-tax income (or loss), the mix of jurisdictions to which such income relates, tax law developments, as well as non-deductible expenses, such as share-based compensation, and changes in its valuation allowance. Income tax expense (benefit) was \$0.8 million and \$(2.4) million for the three months ended March 31, 2022 and 2021, respectively. The income tax expense (benefit) for the periods consisted primarily of income taxes related to the U.S.

A valuation allowance is provided when it is more likely than not that the deferred tax assets will not be realized. Based on the available objective evidence during three months ended March 31, 2022, the Company believes it is more likely than not that the tax benefits of the Company's losses incurred in Israel may not be realized.

Our gross unrecognized tax benefits were \$4.4 million as of March 31, 2022 and December 31, 2021, respectively. As of March 31, 2022, the Company does not expect its unrecognized tax benefits to change significantly within the next twelve months.

14. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share for the periods presented:

	Three Months Ended March 31,	
	2022	2021
	(in thousands, except share and per share data)	
Numerator:		
Net loss	\$ (19,704)	\$ (7,895)
Denominator:		
Weighted-average shares used in computing net loss per share, basic and diluted	97,883,814	92,679,756
Net loss per share, basic and diluted	<u>\$ (0.20)</u>	<u>\$ (0.09)</u>

The potential shares of ordinary shares that were excluded from the computation of diluted net loss per share for the periods presented because including them would have been anti-dilutive are as follows:

	Three Months Ended March 31,	
	2022	2021
Outstanding share options	9,346,102	12,504,417
Unvested RSUs	3,714,230	1,164,446
Share purchase rights under the ESPP	140,818	23,652
Issuable ordinary shares related to business combination	142,519	132,311
Total	13,343,669	13,824,826

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 11, 2022, or our Annual Report. As discussed in the section titled "Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" under Part II, Item 1A in this Quarterly Report on Form 10-Q and under Part I, Item 1A in our Annual Report.

Overview

JFrog's vision is to power a world of continuously updated, version-less software—we call this Liquid Software.

We provide an end-to-end, hybrid, universal DevOps Platform that powers the software supply chain, enabling organizations to continuously deliver software updates across any system. This platform is the critical bridge between software development and deployment of that software, paving the way for the modern DevOps paradigm. We enable organizations to build and release software faster and more securely while empowering developers to be more efficient.

We have designed our subscription structure and go-to-market strategy to align our growth with the success of our customers. Our business model benefits from our ability to serve the needs of all customers, from individual software developers and IT operators to the largest organizations, in a value-oriented manner. All references to our customers included in this Quarterly Report on Form 10-Q refer to paying customers.

We generate revenue from the sale of subscriptions to customers. We offer subscription tiers for self-managed deployments, where our customers deploy and manage our products across their public cloud, on-premise, private cloud, or hybrid environments, as well as JFrog-managed public cloud deployments, which we refer to as our SaaS subscriptions. Revenue from SaaS subscription contributed 26% of our total revenue for the three months ended March 31, 2022, compared to 23% for the three months ended March 31, 2021.

Our self-managed subscriptions are offered on an annual and multi-year basis, and our SaaS subscriptions are offered on an annual and monthly basis. Revenue from subscriptions that provide our customers with access to multiple products represented approximately 93% of our total revenue for the three months ended March 31, 2022, compared to approximately 91% for the three months ended March 31, 2021. Revenue from Enterprise Plus subscription represented approximately 35% of our total revenue for the three months ended March 31, 2022, compared to approximately 29% for the three months ended March 31, 2021. The growth in revenue from our Enterprise Plus subscription demonstrates the increased demand for our end-to-end solutions for customers' entire software supply chain management.

We have an unwavering commitment to the software developer and IT operator communities, and show this commitment by offering varying forms of free access to our products in addition to the paid subscriptions described above. This free access takes the form of free trials, freemium offerings, and open source software, and helps generate demand for our paid offerings within the software developer and IT operator communities.

We had \$427.7 million of cash, cash equivalents, and short-term investments as of March 31, 2022. We generated revenue of \$63.7 million and \$45.1 million for the three months ended March 31, 2022 and 2021, respectively, representing 41% growth. We incurred net loss of \$19.7 million and \$7.9 million for the three months ended March 31, 2022 and 2021, respectively, and generated operating cash flow of \$5.0 million and \$8.8 million during the three months ended March 31, 2022 and 2021, respectively.

COVID-19 Update

The COVID-19 pandemic has impacted worldwide economic activity, financial markets, and business practices since it emerged in 2020. During the three months ended March 31, 2022, as a result of the increased vaccination rate and less virulent strains, many government-imposed restrictions have been lightened or removed. We fully reopened all of our offices and are

conducting business as usual. However, the end of the COVID-19 pandemic is still uncertain. We will continuously monitor and evaluate the situation and respond appropriately to support our employees, customers, partners and communities.

Factors Affecting Our Performance

We believe that our future performance will depend on many factors, including the following:

Extending Our Technology Leadership

We intend to continue to enhance our platform by developing new products and expanding the functionality of existing products to maintain our technology leadership. Since our initial launch of JFrog Artifactory, we have released several additional products that together create a unified DevOps platform.

We invest heavily in integrating our products with the major package technologies so that our products can be easily adopted in any development environment. We believe that these integrations increase the value of our platform to our customers, as they provide freedom of choice for software developers and IT operators and help avoid vendor lock-in. We intend to expend additional resources in the future to continue introducing new products, features, and functionality.

Expanding Usage by Existing Customers

We believe that there is a significant opportunity for growth with many of our existing customers. Many customers purchase our products through self-service channels and often materially expand their usage over time. Increased engagement with our products provides our support and customer success teams opportunities to work directly with customers and introduce them to additional products and features, as well as drive usage of our products across large teams and more broadly across organizations. We will continue to expand our strategic team to identify new use cases and drive expansion and standardization on JFrog within our largest customers, to maintain engineering-level customer support, and to introduce new products and features that are responsive to our customers' needs.

We quantify our expansion across existing customers through our net dollar retention rate. Our net dollar retention rate compares our annual recurring revenue ("ARR") from the same set of customers across comparable periods. We define ARR as the annualized revenue run-rate of subscription agreements from all customers as of the last month of the quarter. The ARR includes monthly subscription customers so long as we generate revenue from these customers. We annualize our monthly subscriptions by taking the revenue we would contractually expect to receive from such customers in a given month and multiplying it by 12. We calculate net dollar retention rate by first identifying customers (the "Base Customers"), which were customers in the last month of a particular quarter (the "Base Quarter"). We then calculate the contracted ARR from these Base Customers in the last month of the same quarter of the subsequent year (the "Comparison Quarter"). This calculation captures upsells, contraction, and attrition since the Base Quarter. We then divide total Comparison Quarter ARR by total Base Quarter ARR for Base Customers. Our net dollar retention rate in a particular quarter is obtained by averaging the result from that particular quarter with the corresponding results from each of the prior three quarters. Our net dollar retention rate may fluctuate as a result of a number of factors, including the level of penetration within our customer base, expansion of products and features, and our ability to retain our customers. As of March 31, 2022 and 2021, our net dollar retention rate was 131% and 130%, respectively.

We focus on growing the number of large customers as a measure of our ability to scale with our customers and attract larger organizations to adopt our products. As of March 31, 2022, 599 of our customers had ARR of \$100,000 or more, increasing from 537 customers as of December 31, 2021. We had 16 customers with ARR of at least \$1.0 million as of March 31, 2022, increasing from 15 customers as of December 31, 2021.

Acquiring New Customers

We believe there is a significant opportunity to grow the number of customers that use our platform. Our results of operations and growth prospects will depend in part on our ability to attract new customers. To date, we have primarily relied on our self-service and inbound sales model to attract new customers. Prospective customers can evaluate and adopt our products through our freemium offerings, free trials, and open source software options. The costs associated with providing these freemium offerings, free trials, and open source software options are included in sales and marketing. While we believe we have a significant market opportunity that our platform addresses, we will need to continue to invest in customer support, sales and marketing, and research and development in order to address this opportunity.

Additionally, we believe our products address the software release needs of customers worldwide, and we see international expansion as a major opportunity. We have been operating and selling our products in international markets since our inception. While we believe global demand for our products will continue to increase as international market awareness of our brand grows, our ability to conduct our operations internationally will require considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems, and commercial markets.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe that free cash flow, a non-GAAP financial measure, is useful in evaluating the performance of our business.

Free Cash Flow

Free cash flow is a non-GAAP financial measure that we calculate as net cash provided by operating activities less purchases of property and equipment. We believe this is a useful indicator of liquidity that provides information to management and investors about the amount of cash generated from our core operations that, after the purchases of property and equipment, can be used for strategic initiatives, including investing in our business, making strategic acquisitions, and strengthening our balance sheet. Free cash flow has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. Some of the limitations of free cash flow are that this metric does not reflect our future contractual commitments and may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure. We expect our free cash flow to fluctuate in future periods as we invest in our business to support our plans for growth.

The following table summarizes our cash flows for the periods presented and provides a reconciliation of net cash from operating activities, the most directly comparable financial measure calculated in accordance with GAAP, to free cash flow, a non-GAAP financial measure, for each of the periods presented:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Net cash provided by operating activities	\$ 5,031	\$ 8,811
Less: purchases of property and equipment	(1,143)	(1,135)
Free cash flow	<u>\$ 3,888</u>	<u>\$ 7,676</u>
Net cash used in investing activities	\$ (18,896)	\$ (27,890)
Net cash provided by financing activities	\$ 5,155	\$ 1,282

Components of Results of Operations

Revenue

Our revenues are comprised of revenue from self-managed subscriptions and SaaS subscriptions. Subscriptions to our self-managed software include license, support, and upgrades and updates on a when-and-if-available basis. Our SaaS subscriptions provide access to our latest managed version of our product hosted in a public cloud.

Subscription—Self-Managed and SaaS

Subscription—self-managed and SaaS revenue is generated from the sale of subscriptions for our self-managed software products and revenue from our SaaS subscriptions. For subscriptions to our self-managed software products, revenue is

recognized ratably over the subscription term. For our SaaS subscriptions, revenue is recognized based on usage as the usage occurs over the contract period.

License—Self-Managed

The license component of our self-managed subscriptions reflects the revenue recognized by providing customers with access to proprietary software features. License revenue is recognized upfront when the software license is made available to our customer.

Cost of Revenue

Subscription—Self-Managed and SaaS

Cost of subscription—self-managed and SaaS revenue primarily consists of expenses related to providing support to our customers and cloud-related costs, such as hosting and managing costs. These costs primarily consist of personnel-related expenses of our services and customer support personnel, share-based compensation expenses, amortization of acquired intangible assets, public cloud infrastructure costs, depreciation of property and equipment, and allocated overhead. We expect our cost of subscription and SaaS revenue to increase in absolute dollars as our subscription and SaaS revenue increases.

License—Self-Managed

Cost of license self-managed revenue consists of amortization of acquired intangible assets.

Operating Expenses

Research and Development

Research and development costs primarily consist of personnel-related expenses, share-based compensation expenses, associated with our engineering personnel responsible for the design, development, and testing of our products, cost of development environments and tools, and allocated overhead. We expect that our research and development expenses will continue to increase as we increase our research and development headcount to further strengthen and enhance our products and invest in the development of our software.

Sales and Marketing

Sales and marketing expenses primarily consist of personnel-related expenses, share-based compensation expenses, sales commissions directly associated with our sales and marketing organizations, public cloud infrastructure costs associated with our free trials, freemium offerings, and open source software options, and costs associated with marketing programs and user events. Marketing programs include advertising, promotional events, and brand-building activities. We plan to increase our investment in sales and marketing over the foreseeable future, as we continue to hire additional personnel and invest in sales and marketing programs.

General and Administrative

General and administrative expenses primarily consist of personnel-related expenses, share-based compensation expenses, associated primarily with our finance, legal, human resources and other operational and administrative functions, professional fees for external legal, accounting and other consulting services, directors and officer's insurance expenses, and allocated

overhead. We expect to increase the size of our general and administrative function to support the growth of our business. As a result, we expect our general and administrative expenses to increase for the foreseeable future.

Interest and Other Income, Net

Interest and other income, net primarily consists of income earned on our cash equivalents and short-term investments. Interest and other income, net also includes foreign exchange gains and losses.

Income Tax Expense (Benefit)

Income tax expense (benefit) consists primarily of income taxes related to the U.S. and other foreign jurisdictions in which we conduct business. We maintain a full valuation allowance on certain deferred tax assets in Israel as we have concluded that it is not more likely than not that the deferred tax assets will be realized. Our effective tax rate is affected by tax rates in foreign jurisdictions and the relative amounts of income we earn in those jurisdictions, as well as non-deductible expenses, such as share-based compensation, and changes in our valuation allowance.

Results of Operations

The following tables set forth selected condensed consolidated statements of operations data and such data as a percentage of total revenue for each of the periods indicated:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Revenue:		
Subscription—self-managed and SaaS	\$ 59,069	\$ 41,338
License—self-managed	4,627	3,749
Total subscription revenue	63,696	45,087
Cost of revenue:		
Subscription—self-managed and SaaS ⁽¹⁾⁽²⁾⁽³⁾	13,643	8,236
License—self-managed ⁽²⁾	220	191
Total cost of revenue—subscription	13,863	8,427
Gross profit	49,833	36,660
Operating expenses:		
Research and development ⁽¹⁾⁽³⁾	27,101	13,836
Sales and marketing ⁽¹⁾⁽²⁾⁽³⁾	29,180	19,765
General and administrative ⁽¹⁾⁽³⁾⁽⁴⁾	12,691	13,671
Total operating expenses	68,972	47,272
Operating loss	(19,139)	(10,612)
Interest and other income, net	273	360
Loss before income taxes	(18,866)	(10,252)
Income tax expense (benefit)	838	(2,357)
Net loss	\$ (19,704)	\$ (7,895)

(1) Includes share-based compensation expense as follows:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Cost of revenue: subscription—self-managed and SaaS	\$ 1,306	\$ 762
Research and development	5,132	1,829
Sales and marketing	4,755	2,723
General and administrative	2,881	6,436
Total share-based compensation expense	\$ 14,074	\$ 11,750

(2) Includes amortization expense of acquired intangible assets as follows:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Cost of revenue: subscription—self-managed and SaaS	\$ 2,386	\$ —
Cost of revenue: license—self-managed	220	191
Sales and marketing	236	182
Total amortization expense of acquired intangible assets	<u>\$ 2,842</u>	<u>\$ 373</u>

(3) Includes acquisition-related costs as follows:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Cost of revenue: subscription—self-managed and SaaS	\$ 7	\$ —
Research and development	2,375	351
Sales and marketing	124	—
General and administrative	166	—
Total acquisition-related costs	<u>\$ 2,672</u>	<u>\$ 351</u>

(4) Includes legal settlement costs as follows:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
General and administrative	\$ 94	\$ —

	Three Months Ended March 31,	
	2022	2021
Revenue:		
Subscription—self-managed and SaaS	93 %	92 %
License—self-managed	7	8
Total subscription revenue	<u>100</u>	<u>100</u>
Cost of revenue:		
Subscription—self-managed and SaaS	21	18
License—self-managed	1	1
Total cost of revenue—subscription	<u>22</u>	<u>19</u>
Gross profit	<u>78</u>	<u>81</u>
Operating expenses:		
Research and development	42	31
Sales and marketing	46	44
General and administrative	20	30
Total operating expenses	<u>108</u>	<u>105</u>
Operating loss	<u>(30)</u>	<u>(24)</u>
Interest and other income, net	—	1
Loss before income taxes	<u>(30)</u>	<u>(23)</u>
Income tax expense (benefit)	1	(5)
Net loss	<u>(31)%</u>	<u>(18)%</u>

Comparison of the Three Months Ended March 31, 2022 and 2021

Revenue

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
	(in thousands, except percentage)			
Subscription—self-managed and SaaS	\$ 59,069	\$ 41,338	\$ 17,731	43 %
License—self-managed	4,627	3,749	878	23 %
Total subscription revenue	\$ 63,696	\$ 45,087	\$ 18,609	41 %

Total subscription revenue increased \$18.6 million, or 41%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. Approximately \$15.0 million of the increase in revenue was attributable to the growth from existing customers, and the remaining increase in revenue was attributable to new customers.

Cost of Revenue and Gross Margin

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
	(in thousands, except percentage)			
Subscription—self-managed and SaaS	\$ 13,643	\$ 8,236	\$ 5,407	66 %
License—self-managed	220	191	29	15 %
Total cost of revenue—subscription	\$ 13,863	\$ 8,427	\$ 5,436	65 %
Gross margin	78 %	81 %		

Total cost of revenue increased \$5.4 million, or 65%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The increase was primarily attributable to an increase of \$2.4 million in amortization of intangibles mainly as a result of our acquisition of Vdoo Connected Trust Ltd. (“Vdoo”) in 2021, an increase of \$1.5 million in personnel-related expenses mainly as a result of increased headcount, and an increase of \$0.5 million in share-based compensation expense as discussed in the section titled “*Share-Based Compensation Expense*” below.

Gross margin was 78% for the three months ended March 31, 2022, compared to 81% for the three months ended March 31, 2021. The decrease reflects higher amortization expense as discussed above.

Operating Expenses

Research and Development

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
	(in thousands, except percentage)			
Research and development	\$ 27,101	\$ 13,836	\$ 13,265	96 %

Research and development expense increased \$13.3 million, or 96%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The increase was primarily attributable to an increase of \$6.5 million in personnel-related expenses mainly as a result of increased headcount, including headcount from our acquisitions in 2021, an increase of \$3.3 million in share-based compensation expense as discussed in the section titled “*Share-Based Compensation Expense*” below, and an increase of \$2.1 million in compensation expense associated with holdback and retention arrangements as part of our acquisitions in the third quarter of 2021.

Sales and Marketing

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
	(in thousands, except percentage)			
Sales and marketing	\$ 29,180	\$ 19,765	\$ 9,415	48 %

Sales and marketing expense increased \$9.4 million, or 48%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The increase was primarily attributable to an increase of \$3.1 million in personnel-related expenses mainly as a result of increased headcount, an increase of \$2.0 million in share-based compensation expense as discussed in the section titled “*Share-Based Compensation Expense*” below, and an increase of \$1.7 million in marketing program costs.

General and Administrative

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
	(in thousands, except percentage)			
General and administrative	\$ 12,691	\$ 13,671	\$ (980)	(7)%

General and administrative expense decreased \$1.0 million, or 7%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The decrease was primarily attributable to a decrease of \$3.6 million in share-based compensation expense as discussed in the section titled “*Share-Based Compensation Expense*” below, partially offset by an increase of \$1.6 million in personnel-related expenses mainly as a result of increased headcount.

Share-based Compensation Expense

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
	(in thousands, except percentage)			
Cost of revenue: subscription–self-managed and SaaS	\$ 1,306	\$ 762	\$ 544	71 %
Research and development	5,132	1,829	3,303	181 %
Sales and marketing	4,755	2,723	2,032	75 %
General and administrative	2,881	6,436	(3,555)	(55)%
Total share-based compensation expense	<u>\$ 14,074</u>	<u>\$ 11,750</u>	<u>\$ 2,324</u>	<u>20%</u>

Share-based compensation expenses increased \$2.3 million, or 20%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021, primarily attributable to grants to new and existing employees. In addition, equity awards and holdback arrangements associated with our Vdoo acquisition resulted in \$2.1 million share-based compensation expense for the three months ended March 31, 2022, primarily in research and development. The decrease in share-based compensation expense in general and administrative was due to \$5.1 million expense recognized for the three month ended March 31, 2021 related to the RSU granted to our CEO, which fully vested in September 2021.

Interest and Other Income, Net

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
	(in thousands, except percentage)			
Interest and other income, net	\$ 273	\$ 360	\$ (87)	(24)%

Interest and other income, net decreased \$0.1 million, or 24%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021, primarily due to lower interest income on deposits and marketable investments as a result of lower investment balance.

Income Tax Expense (Benefit)

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
	(in thousands, except percentage)			
Income tax expense (benefit)	\$ 838	\$ (2,357)	\$ 3,195	(136)%
Effective income tax rate	(4)%	23%		

We recorded income tax expense of \$0.8 million and income tax benefit of \$2.4 million for the three months ended March 31, 2022 and 2021, respectively. This change was primarily a result of the mix of pre-tax income (loss) in different tax jurisdictions. Our effective tax rate was (4)% and 23% for the three months ended March 31, 2022 and 2021, respectively. Our effective tax

rate is affected primarily by tax rates in foreign jurisdictions and the relative amounts of income we earn in those jurisdictions, as well as non-deductible expenses, such as share-based compensation, and changes in our valuation allowance.

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through sales of equity securities and cash generated from operations. Our principal uses of cash in recent periods have been funding our operations, investing in capital expenditures, and business and asset acquisitions.

As of March 31, 2022, our principal sources of liquidity were cash, cash equivalents, and short-term investments of \$427.7 million. Cash and cash equivalents primarily consist of cash in banks and money market funds. Short-term investments generally consist of bank deposits, commercial paper, corporate debt securities, municipal securities, and government and agency debt. We believe our existing cash, cash equivalents, and short-term investments, together with cash provided by operations, will be sufficient to meet our needs for at least the next 12 months.

Our future capital requirements will depend on many factors including our revenue growth rate, subscription renewal activity, billing frequency, the timing, and extent of spending to support further sales and marketing and research and development efforts, the continuing market acceptance of our products and services, as well as expenses associated with our international expansion, the timing, and extent of additional capital expenditures to invest in existing and new office spaces. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition would be materially and adversely affected.

The following table summarizes our cash flows for the periods presented:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Net cash provided by operating activities	\$ 5,031	\$ 8,811
Net cash used in investing activities	\$ (18,896)	\$ (27,890)
Net cash provided by financing activities	\$ 5,155	\$ 1,282

Operating Activities

Net cash provided by operating activities of \$5.0 million for three months ended March 31, 2022 was related to our net loss of \$19.7 million adjusted for non-cash charges of \$21.0 million, including share-based compensation expense of \$14.1 million, and changes in our operating assets and liabilities of \$3.7 million, primarily due to an increase of \$5.3 million in deferred revenue driven by higher sales.

Net cash provided by operating activities of \$8.8 million for the three months ended March 31, 2021 was related to our net loss of \$7.9 million adjusted by non-cash charges of \$15.4 million, including share-based compensation expense of \$11.8 million, and changes in our operating assets and liabilities of \$1.3 million, primarily due to an increase of \$18.1 million in deferred revenue, partially offset by an increase of \$14.4 million in accounts receivable. The increases in deferred revenue and accounts receivable were driven by higher sales.

Investing Activities

Net cash used in investing activities of \$18.9 million for the three months ended March 31, 2022 was primarily the result of net purchases of short-term investments of \$17.6 million and capital expenditure of \$1.1 million.

Net cash used in investing activities of \$27.9 million for the three months ended March 31, 2021 was the result of net purchases of short-term investments of \$26.8 million and capital expenditure of \$1.1 million.

Financing Activities

Net cash provided by financing activities of \$5.2 million for the three months ended March 31, 2022 consisted primarily of proceeds from employee share purchases under our ESPP of \$3.3 million and proceeds from exercise of share options of \$1.8 million.

Net cash provided by financing activities of \$1.3 million for the three months ended March 31, 2021 was related to proceeds from exercise of share options of \$2.3 million, partially offset by net payments of \$1.0 million to tax authorities associated with our employee equity transactions.

Contractual Obligations

The following table summarizes our non-cancellable contractual obligations as of March 31, 2022:

	<u>Total</u>	<u>Payments Due by Period</u>	
		<u>2022 (Remainder)</u>	<u>2023 and Thereafter</u>
		<u>(in thousands)</u>	
Operating lease obligations	\$ 25,545	\$ 5,549	\$ 19,996
Purchase obligations	74,622	6,825	67,797
Total	<u>\$ 100,167</u>	<u>\$ 12,374</u>	<u>\$ 87,793</u>

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. As events continue to evolve and additional information becomes available, our estimates and assumptions may change materially in future periods.

Our critical accounting policies and estimates were disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report. There have been no significant changes to these policies and estimates during the three months ended March 31, 2022.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations in the United States and internationally, and we are exposed to market risk in the ordinary course of our business.

Foreign Currency Exchange Risk

Our revenue and expenses are primarily denominated in U.S. dollars. Our functional currency is the U.S. dollar. Substantially all of our sales are denominated in U.S. dollars, and therefore our revenue is not subject to significant foreign currency risk. However, a significant portion of our operating costs in Israel, consisting principally of salaries and related personnel expenses, and operating lease and facility expenses are denominated in NIS. This foreign currency exposure gives rise to market risk associated with exchange rate movements of the U.S. dollar against the NIS. Furthermore, we anticipate that a material portion of our expenses will continue to be denominated in NIS.

To reduce the impact of foreign exchange risks associated with forecasted future cash flows and certain existing assets and liabilities and the volatility in our Condensed Consolidated Statements of Operations, we have established a hedging program. Foreign currency contracts are generally utilized in this hedging program. Our foreign currency contracts are generally short-term in duration. We do not enter into derivative instruments for trading or speculative purposes. We account for our derivative instruments as either assets or liabilities and carry them at fair value in the Condensed Consolidated Balance Sheets. The accounting for changes in the fair value of the derivative depends on the intended use of the derivative and the resulting designation. Our hedging program reduces but does not eliminate the impact of currency exchange rate movements. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business, after considering our hedging programs, would not have had a material impact on our results of operations for the three months ended March 31, 2022.

Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. We seek to mitigate such risk by limiting our counterparties to major financial institutions and by spreading the risk across a number of major financial institutions. However, failure of one or more of these financial institutions is possible and could result in incurred losses.

As of March 31, 2022, our cash, cash equivalents, restricted cash, and short-term investments were primarily denominated in U.S. dollars. A 10% increase or decrease in current exchange rates would not materially affect our cash, cash equivalents, restricted cash, and short-term investment balances as of March 31, 2022.

Interest Rate Risk

As of March 31, 2022, we had cash and cash equivalents of \$59.6 million, and short-term investments of \$368.1 million. Cash and cash equivalents primarily consist of cash in banks and money market funds. Short-term investments generally consist of bank deposits, certificates of deposit, commercial paper, corporate debt securities, municipal securities, and government and agency debt. Our cash, cash equivalents, and short-term investments are held for working capital purposes. Such interest-earning instruments carry a degree of interest rate risk. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these instruments, a hypothetical 1% increase in interest rates would not have had a material impact on their fair value as of March 31, 2022.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation and supervision of our Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the

Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were, in design and operation, effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply their judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under the heading “Legal Proceedings” in Note 10 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

A description of the risks associated with our business, financial condition, and results of operations is set forth in Part I, Item 1A, of our Annual Report. There have been no material changes from the risk factors previously disclosed in our Annual Report, except for the following risk factors. The risk factors below should be read in conjunction with the risk factors and other information disclosed in our Annual Report.

Risks Related to Our Business and Industry

Unfavorable conditions in our industry or the global economy or reductions in information technology spending could limit our ability to grow our business and negatively affect our results of operations.

Our results of operations may vary based on the impact of changes in our industry or the global economy on us or our customers. Current or future economic uncertainties or downturns could adversely affect our business and results of operations. Negative conditions in the general economy both in the United States and abroad, including geopolitical unrest resulting from Russia’s significant military action against Ukraine, changes in gross domestic product growth, rising inflation rates and interest rates, financial, and credit market fluctuations, natural catastrophes, the COVID-19 pandemic, warfare, protests and riots, and terrorist attacks on the United States, Europe, the Asia Pacific region, or elsewhere, could cause a decrease in business investments by our customers and potential customers, including spending on information technology, and negatively affect the growth of our business. To the extent our products are perceived by customers and potential customers as discretionary, our revenue may be disproportionately affected by delays or reductions in general information technology spending. Also, customers may choose to develop in-house software as an alternative to using our products. Moreover, competitors may respond to such negative conditions in the general economy by lowering prices. We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery, generally or within any particular industry. If the economic conditions of the general economy or markets in which we operate do not improve, or worsen from present levels, our business, results of operations, and financial condition could be adversely affected.

Risks Related to Privacy, Data Protection and Cybersecurity

We are subject to stringent and changing laws, regulations, standards, and contractual obligations related to privacy, data protection, and data security. Our actual or perceived failure to comply with such obligations could harm our business.

We receive, collect, store, process, transfer, retain, use, and otherwise process personal information and other data relating to users of our products, our employees and contractors, and other persons. We have legal and contractual obligations regarding the protection of confidentiality and appropriate use of certain data, including personal information. We are subject to numerous federal, state, local, and international laws, directives, and regulations regarding privacy, data protection, and data security and the collection, storing, sharing, use, processing, transfer, retention, security, disclosure, and protection of personal information and other data, the scope of which are changing, subject to differing interpretations, and may be inconsistent among jurisdictions or conflict with other legal and regulatory requirements. We are also subject to certain contractual obligations to third parties related to privacy, data protection and data security. We strive to comply with our applicable policies and applicable laws, regulations, contractual obligations, and other legal obligations relating to privacy, data protection, and data security to the extent possible. However, the regulatory framework for privacy, data protection and data security worldwide is, and is likely to remain for the foreseeable future, uncertain and complex, and it is possible that these or other actual or alleged obligations may be interpreted and applied in a manner that we do not anticipate or that is inconsistent from one jurisdiction to another and may conflict with other legal obligations or our practices. Any perception of privacy, data security, or data protection concerns or an inability to comply with applicable laws, regulations, policies, industry standards, contractual obligations, or other legal obligations, even if unfounded, may result in additional cost and liability to us, harm our reputation and inhibit adoption of our products by current and future customers, and adversely affect our business, financial condition, and results of operations. Further, any significant change to applicable laws, regulations or industry practices regarding the collection, storing, sharing, use, retention, security, protection, disclosure, other processing of data, or their interpretation, or any changes regarding the manner

in which the consent of users or other data subjects for the collection, use, retention, disclosure, or other processing of such data must be obtained, could increase our costs and require us to modify our services and features, possibly in a material manner, which we may be unable to complete, and may limit our ability to store and process user data or develop new services and features.

If we were found in violation of any applicable laws or regulations relating to privacy, data protection, or data security, in addition to any regulatory fines, penalties, or litigation costs, our business may be materially and adversely affected and we would likely have to change our business practices and potentially the services and features available through our platform. In addition, these laws and regulations could constrain our ability to use and process data in manners that may be commercially desirable. In addition, if a breach of data security were to occur or to be alleged to have occurred, if any violation of laws and regulations relating to privacy, data protection or data security were to be alleged, or if we had any actual or alleged defect in our safeguards or practices relating to privacy, data protection, or data security, our solutions may be perceived as less desirable and our business, prospects, financial condition, and results of operations could be materially and adversely affected.

Various United States (“U.S.”) privacy laws are potentially relevant to our business, including the Federal Trade Commission Act, Controlling the Assault of Non-Solicited Pornography and Marketing Act, and the Telephone Consumer Protection Act. Any actual or perceived failure to comply with these laws could result in a costly investigation or litigation resulting in potentially significant liability, loss of trust by our users, and a material and adverse impact on our reputation and business.

Within the U.S., we anticipate increasing regulation of privacy, data protection and data security, including the adoption of more stringent laws. For example, in June 2018, California passed the California Consumer Privacy Act (“CCPA”), which provides new data privacy rights for California consumers and new operational requirements for covered companies. The CCPA, among other things, provides that covered companies must provide new disclosures to California consumers and afford such consumers new data privacy rights that include the right to request a copy from a covered company of the personal information collected about them, the right to request deletion of such personal information, and the right to request to opt-out of certain sales of such personal information. The CCPA became operative on January 1, 2020. The California Attorney General can enforce the CCPA, including seeking an injunction and civil penalties for violations. The CCPA provides a private right of action for certain data breaches that is expected to increase data breach litigation. The CCPA has required us to modify our data practices and policies and to incur certain costs and expenses in an effort to comply. Additionally, a new privacy law, the California Privacy Rights Act (“CPRA”), was approved by California voters in November 2020. The CPRA creates obligations relating to consumer data beginning on January 1, 2022, with implementing regulations expected on or before July 1, 2022, and enforcement beginning July 1, 2023. The CPRA will significantly modify the CCPA, potentially resulting in further uncertainty and requiring us to incur additional costs and expenses in an effort to comply. More generally, some observers have noted the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States, as observed with the recent Virginia Consumer Data Protection Act, enacted March 2021 and takes effect January 2023, the Colorado Privacy Act, enacted June 2021 and takes effect July 2023, and the Utah Consumer Privacy Act, enacted March 2022 and takes effect December 2023. These new state laws could increase our potential liability and adversely affect our business.

With respect to cybersecurity in the U.S., we are closely monitoring the development of rules and guidance pursuant to various executive orders that may apply to us, including pursuant to Executive Order 14028 for “EO-critical software,” for example. These developing rules and guidance may increase our compliance costs and delay customer contract execution.

Internationally, we also expect that there will continue to be new laws, regulations, and industry standards concerning privacy, data protection, and information security proposed and enacted in various jurisdictions. For example, the data protection landscape in the European Union (“EU”) continues to evolve, resulting in possible significant operational costs for internal compliance and risks to our business. The EU adopted the General Data Protection Regulation (“GDPR”), which became effective in May 2018, and contains numerous requirements and changes from previously existing EU laws, including more robust obligations on data processors and heavier documentation requirements for data protection compliance programs by companies. Among other requirements, the GDPR regulates the transfer of personal data subject to the GDPR to third countries that have not been found to provide adequate protection to such personal data, including the U.S. Failure to comply with the GDPR could result in penalties for noncompliance (including possible fines of up to the greater of €20 million and 4% of our global annual turnover for the preceding financial year for the most serious violations, as well as the right to compensation for financial or non-financial damages claimed by individuals under Article 82 of the GDPR). Despite our efforts to attempt to comply with the GDPR, a regulator may determine that we have not done so and subject us to fines and public censure, which could harm our company.

Among other requirements, the GDPR regulates transfers of personal data outside of the European Economic Area (“EEA”) to third countries that have not been found to provide adequate protection to such personal data, including the U.S. With regard

to transfers to the U.S. of personal data from our employees and European customers and users, we rely upon the Standard Contractual Clauses (“SCCs”). The “Schrems II” decision issued by the Court of Justice of the European Union (“CJEU”) on July 16, 2020, invalidated the EU-U.S. Privacy Shield Framework as a mechanism to transfer personal data from the EEA to the U.S. In the same decision, the CJEU confirmed the validity of the SCCs, but advised that the SCCs must be considered on a case-by-case basis, in conjunction with an assessment as to whether national security laws conflict with the guarantees provided by the data importer under the SCCs. The European Commission has issued new SCCs that account for the CJEU’s “Schrems II” decision and that are required to be implemented over time. These developments represent a milestone in the regulation of cross-border data transfers, and require major changes to our data transfer policy, including the need to conduct legal, technical, and security assessments for each data transfer from the EEA to a country outside of the EEA. This means that we may be unsuccessful in maintaining legitimate means for our transfer and receipt of personal data from the EEA. We may, in addition to other impacts, experience additional costs associated with increased compliance burdens, and we and our customers face the potential for regulators in the EEA to apply different standards to the transfer of personal data from the EEA to the U.S., and to block, or require ad hoc verification of measures taken with respect to, certain data flows from the EEA to the U.S. We also anticipate being required to engage in new contract negotiations with third parties that aid in processing data on our behalf, and entering into the new SCCs. We may experience reluctance or refusal by current or prospective European customers to use our products, and we may find it necessary or desirable to make further changes to our handling of personal data of EEA residents.

The regulatory environment applicable to the handling of EEA residents' personal data, and our actions taken in response, may cause us to assume additional liabilities or incur additional costs and could result in our business, operating results, and financial condition being harmed. We and our customers may face a risk of enforcement actions by data protection authorities in the EEA relating to personal data transfers to us and by us from the EEA. Any such enforcement actions could result in substantial costs and diversion of resources, distract management and technical personnel and negatively affect our business, operating results and financial condition.

In addition to the GDPR, the European Commission has another draft regulation in the approval process that focuses on a person’s right to conduct a private life. The proposed legislation, known as the Regulation of Privacy and Electronic Communications (“ePrivacy Regulation”), would replace the current ePrivacy Directive. Originally planned to be adopted and implemented at the same time as the GDPR, the ePrivacy Regulation is still being negotiated. Most recently, on February 10, 2021, the Council of the EU agreed on its version of the draft ePrivacy Regulation. If adopted, the earliest date for entry into force is in 2023, with broad potential impacts on the use of internet-based services and tracking technologies, such as cookies. Aspects of the ePrivacy Regulation remain for negotiation between the European Commission and the Council. We expect to incur additional costs to comply with the requirements of the ePrivacy Regulation as it is finalized for implementation. Additionally, on January 13, 2022, the Austrian data protection authority published a decision ruling that the collection of personal data and transfer to the U.S. through Google Analytics and other analytics and tracking tools used by website operators violates the GDPR. On February 10, 2022, the French data protection authority issued a press release stating that the French data protection authority had issued a similar decision. Other data protection authorities in the EU are increasingly focused on the use of online tracking tools and have indicated that they plan to issue similar rulings.

Further on January 31, 2020, the United Kingdom (“U.K.”) left the EU (commonly referred to as “Brexit”). The U.K. enacted legislation substantially implementing the GDPR, with penalties for noncompliance of up to the greater of £17.5 million or four percent of worldwide revenues. The U.K. has issued its own SCCs to support the transfer of personal data of the U.K. Aspects of U.K. data protection regulation remain, however, unclear in the medium to longer term. The European Commission and the U.K. government announced a EU-U.K. Trade Cooperation Agreement on December 24, 2020, and on June 28, 2021, the European Commission issued an adequacy decision under the GDPR and the Law Enforcement Directive, pursuant to which personal data generally may be transferred from the EU to the U.K. without restriction, subject to a four-year “sunset” period, after which the European Commission’s adequacy decision may be renewed. During that period, the European Commission will continue to monitor the legal situation in the U.K. and may intervene at any time with respect to its adequacy decision. The UK’s adequacy determination therefore is subject to future uncertainty, and may be subject to modification or revocation in the future, with the U.K. potentially being considered a “third country” under the GDPR, with personal data transfers needing to be made subject to GDPR-compliant safeguards (for example, the SCCs). With uncertainty remaining over the interpretation and application of data protection law in the U.K., we may face challenges in addressing their requirements and making necessary changes to our policies and practices, and may incur significant costs and expenses in an effort to do so.

Other countries also are considering or have enacted legislation that could impact our compliance obligations, expose us to liability, and increase the cost and complexity of delivering our services. For example, failure to comply with the Israeli Privacy Protection Law 5741-1981, and its regulations as well as the guidelines of the Israeli Privacy Protection Authority, may expose us to administrative fines, civil claims (including class actions) and in certain cases criminal liability. Further, the Data Security

Law of China (“DSL”), which took effect on September 1, 2021, and the Personal Information Protection Law of China (“PIPL”), which took effect on November 1, 2021, implement comprehensive regulation of data and personal data processing activities across all industries and operations such as collecting, utilizing, processing, sharing and transferring data and personal information. The DSL and PIPL apply not only to the processing of data within China, but also seeks to regulate cross-border data transfers as well as certain activities outside of China. Limitations imposed by the DSL and PIPL and uncertainty regarding their application may impact us and may requires us to make changes to our policies and practices in an effort to comply. We are also monitoring recent or pending legislation in India and Japan, among others, for further impacts on our compliance obligations, including requirements for local storage and processing of data that could increase the cost and complexity of delivering our services. Such current or pending legislation may also result in changes to current enforcement measures and sanctions.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that may legally or contractually apply to us. One example of such a self-regulatory standard is the Payment Card Industry Data Security Standard (“PCI DSS”), which relates to the processing of payment card information. In the event we fail to comply with the PCI DSS, fines and other penalties could result, and we may suffer reputational harm and damage to our business. We may also be bound by and agree to contractual obligations to comply with other obligations relating to privacy, data security, or data protection, such as particular standards for information security measures.

We also expect that there will continue to be changes in interpretations of existing laws and regulations, or new proposed laws and regulations concerning privacy, data security, and data protection. We cannot yet determine the impact these laws and regulations or changed interpretations may have on our business, but we anticipate that they could impair our or our customers’ ability to collect, use or disclose information relating to consumers, which could decrease demand for our platform, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue. Moreover, because the interpretation and application of many laws and regulations relating to privacy, security, and data protection, along with mandatory industry standards, are uncertain, it is possible that these laws, regulations and standards, or contractual obligations to which we are or may become subject, may be interpreted and applied in a manner that is inconsistent with our existing or future data management practices or features of our platform and products. Any failure or perceived failure by us to comply with our posted privacy policies, our privacy-related obligations to users or other third parties, or any other legal obligations or regulatory requirements relating to privacy, data protection, or data security, may result in governmental investigations or enforcement actions, litigation, claims, or public statements against us by consumer advocacy groups or others and could result in significant liability, cause our users to lose trust in us, and otherwise materially and adversely affect our reputation and business. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, other obligations, and policies that are applicable to the businesses of our users may limit the adoption and use of, and reduce the overall demand for, our platform. Additionally, if third parties we work with violate applicable laws, regulations or contractual obligations, such violations may put our users’ data at risk, could result in governmental investigations or enforcement actions, fines, litigation, claims, or public statements against us by consumer advocacy groups or others and could result in significant liability, cause our users to lose trust in us, and otherwise materially and adversely affect our reputation and business. Further, public scrutiny of, or complaints about, technology companies or their data handling or data protection practices, even if unrelated to our business, industry or operations, may lead to increased scrutiny of technology companies, including us, and may cause government agencies to enact additional regulatory requirements, or to modify their enforcement or investigation activities, which may increase our costs and risks.

A breach of our security measures or unauthorized access to proprietary and confidential data, or a perception that any security breach or other incident has occurred, may result in our platform or products being perceived as not secure, lower customer use or stoppage of use of our products, and significant liabilities.

Although our products do not involve the processing of large amounts of personal data or personal information, our platform and products support customers’ software, which may involve the processing of large amounts of personal data, personal information, and information that is confidential or otherwise sensitive or proprietary. Data security incidents affecting widely trusted data security architecture (such as the incident affecting SolarWinds Orion, the incident involving Accellion FTA, the incident affecting Microsoft Exchange, the incident affecting Kaseya VSA, and the incident involving Log4j – none of which have directly affected us) may increase customer expectations regarding the security, testing, and compliance documentation of our platform and products for secure software development operations, management, automation and releases. In addition, these or other incidents may trigger new laws and regulations that increase our compliance burdens, add reporting obligations, or otherwise increase costs for oversight and monitoring of our platform, products, and supply chain.

We do collect and store certain sensitive and proprietary information, and to a lesser degree, personal data and personal information, in the operation of our business. This information includes trade secrets, intellectual property, employee data, and

other confidential data. We have taken measures to protect our own sensitive and proprietary information, personal data and personal information, as well as such information that we otherwise obtain, including from our customers. We also engage vendors and service providers to store and otherwise process some of our and our customers' data, including sensitive and proprietary information, personal data and personal information. Our vendors and service providers have been and, in the future may be, the targets of cyberattacks, malicious software, phishing schemes, fraud, and other risks to the confidentiality, security, and integrity of their systems and the data they process for us. Our ability to monitor our vendors and service providers' data security is limited, and, in any event, third parties may be able to circumvent those security measures, resulting in the unauthorized or unlawful access to, misuse, disclosure, loss, acquisition, corruption, unavailability, alteration, modification or destruction of our and our customers' data, including sensitive and proprietary information, personal data and personal information.

Security breaches and other security incidents that affect us may result from employee or contractor error or negligence or those of vendors, service providers, and strategic partners on which we rely. These attacks may come from individual hackers, criminal groups, and state-sponsored organizations. There have been and may continue to be significant supply chain attacks, and we cannot guarantee that our or our vendors or service providers' systems and networks have not been breached or that they do not contain exploitable vulnerabilities, defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our services. In addition, our customers and users may also disclose or leak their passwords, API keys, or secrets that could lead to unauthorized access to their accounts and data, including information about their software, source code, and security environment, stored within our products. As we continue to expand the products that we can offer our customers, including through the acquisition of complementary businesses, such as our acquisition of Vdoo in 2021, our products could have access to more sensitive information of our customers, which could result in greater adverse effects from security breaches and other security incidents. From time to time, we do identify product vulnerabilities, including through our bug bounty program. Certain vulnerabilities under certain circumstances could be exploited if our customers do not patch vulnerable versions of the product. In the future, we also may experience security breaches, including breaches resulting from a cybersecurity attack, phishing attack, or other means, including unauthorized access, unauthorized usage, viruses or similar breaches or disruptions. We incur significant costs in an effort to detect and prevent security breaches and other security-related incidents, including those to secure our product development, test, evaluation, and deployment activities, and we expect our costs will increase as we make improvements to our systems and processes to prevent future breaches and incidents.

Despite our efforts, our systems and those of our vendors and service providers also are potentially vulnerable to computer malware, viruses, computer hacking, fraudulent use, social engineering attacks, phishing attacks, ransomware attacks, credential stuffing attacks, denial-of-service attacks, unauthorized access, exploitation of bugs, defects, and vulnerabilities, breakdowns, damage, interruptions, system malfunctions, power outages, terrorism, acts of vandalism, failures, security breaches and incidents, inadvertent or intentional actions by our employees, contractors, consultants, partners, and/or other third parties, and other real or perceived cyberattacks. Any of these incidents or any compromise of our security or any unauthorized access to or breaches of the security of our or our service providers' systems or data processing tools or processes, or of our platform and product offerings, as a result of third-party action, employee error, vulnerabilities, defects or bugs, malfeasance, or otherwise, could result in unauthorized or unlawful access to, misuse, disclosure, loss, acquisition, corruption, unavailability, alteration, modification or destruction of our and our customers' data, including sensitive and proprietary information, personal data and personal information, or a risk to the security of our or our customers' systems.

We may be more susceptible to security breaches and other security incidents while many of our employees and employees of our service providers continue to work remotely some portion of the time in response to the COVID-19 pandemic, because we and our service providers have less capability to implement, monitor and enforce our information security and data protection policies for those employees. Based on the examples set in other recent incidents, the more widespread our platform and products become, the more they may be viewed by malicious cyber threat actors as an attractive target for such an attack. We and our service providers may be unable to anticipate these techniques, react, remediate or otherwise address any security breach or other security incident in a timely manner, or implement adequate preventative measures. Also, due to political uncertainty and significant military action associated with Russia's invasion of Ukraine, we and our service providers are vulnerable to heightened risks of cybersecurity incidents and security and privacy breaches from or affiliated with nation-state actors, including attacks that could materially disrupt our systems, operations, supply chain, website, and platform.

A security breach could result in reputational damage, litigation, regulatory investigations and orders, loss of business, indemnity obligations, damages for contract breach, penalties for violation of applicable laws, regulations, or contractual obligations, and significant costs, fees and other monetary payments for remediation, including in connection with forensic examinations and costly and burdensome breach notification requirements. Any belief by customers or others that a security breach or other incident has affected us or any of our vendors or service providers, even if a security breach or other incident has

not affected us or any of our vendors or service providers or has not actually occurred, could have any or all of the foregoing impacts on us, including damage to our reputation. Even the perception of inadequate security may damage our reputation and negatively impact our ability to gain new customers and retain existing customers. In the event of any such breach or incident, we could be required to expend significant capital and other resources to address our or our vendor or service provider's incident. Considering the SolarWinds Orion incident and the Kaseya VSA incident, if our products were compromised in a way that offered a means of malicious access or delivery of ransomware or other malicious software to our customers, the impact of such an incident would likely be significant.

Techniques used to sabotage or obtain unauthorized access to systems or networks are constantly evolving and, in some instances, are not identified until launched against a target. We and our vendors and service providers may be unable to anticipate these techniques, react, remediate or otherwise address any security breach or other security incident in a timely manner, or implement adequate preventative measures. In addition, laws, regulations, government guidance, and industry standards and practices in the U.S. and elsewhere are rapidly evolving to combat these threats. We may face increased compliance burdens regarding such requirements with regulators and customers regarding our products and services and also incur additional costs for oversight and monitoring of our own supply chain.

Further, any provisions in our customer and user agreements, contracts with our vendors and service providers or other contracts relating to limitations of liability may not be enforceable or adequate or otherwise protect us from any liabilities or damages with respect to any particular claim relating to a security breach or other security-related matter. While our insurance policies include liability coverage for certain of these matters, subject to applicable deductibles, if we experienced a widespread security breach or other incident that impacted a significant number of our customers, we could be subject to indemnity claims or other damages that exceed our insurance coverage. If such a breach or incident occurred, our insurance coverage might not be adequate for data handling or data security liabilities actually incurred, such insurance may not continue to be available to us in the future on economically reasonable terms, or at all, and insurers may deny us coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

Risks Related to Foreign Operations

Our international operations and expansion expose us to risk.

Our primary research and development operations are located in Israel. As of March 31, 2022, we had customers located in over 90 countries, and our strategy is to continue to expand internationally. In addition, as a result of our strategy of leveraging a distributed workforce, we had employees located in nine countries as of March 31, 2022. Our current international operations involve, and future initiatives will involve, a variety of risks, including:

- unexpected changes in practices, tariffs, export quotas, custom duties, trade disputes, tax laws and treaties, particularly due to economic tensions and trade negotiations or other trade restrictions;
- different labor regulations, especially in the European Union, where labor laws are generally more advantageous to employees as compared to the United States, including differing hourly wages and overtime regulations in these locations;
- exposure to many stringent and potentially inconsistent laws and regulations relating to privacy, data protection, and information security, particularly in the European Union;
- changes in a specific country's or region's political or economic conditions, such as Russia's significant military action against Ukraine and the associated geopolitical tensions and regional instability, as well as economic sanctions the U.S. and other countries have imposed on Russia and the impact of the foregoing on the global economy;
- risks resulting from the COVID-19 pandemic, including uncertainty regarding how the U.S. or foreign governments will act with respect to the pandemic;
- risks resulting from changes in currency exchange rates;
- challenges inherent to efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;

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- risks relating to the implementation of exchange controls, including restrictions promulgated by the OFAC, and other similar trade protection regulations and measures in the United States or in other jurisdictions;
- reduced ability to timely collect amounts owed to us by our customers in countries where our recourse may be more limited;
- slower than anticipated availability and adoption of cloud and hybrid infrastructures by international businesses;
- limitations on our ability to reinvest earnings from operations derived from one country to fund the capital needs of our operations in other countries;
- potential changes in laws, regulations, and costs affecting our U.K operations and personnel due to Brexit;
- limited or unfavorable intellectual property protection; and
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended, and similar applicable laws and regulations in other jurisdictions.

If we are unable to address these difficulties and challenges or other problems encountered in connection with our international operations and expansion, we may incur unanticipated liabilities or otherwise suffer harm to our business generally.

General Risk Factors

The ongoing COVID-19 pandemic could continue to harm our business and results of operations.

Two full years after the World Health Organization (“WHO”) declared the novel coronavirus disease (COVID-19) a pandemic, the COVID-19 pandemic continues to impact worldwide economic activity and financial markets. While we initially closed our offices and transitioned to a remote working model in response to the pandemic, as of March 31, 2022, we have fully reopened all of our offices. The changes we have implemented to date have not affected and are not expected to materially affect our ability to maintain operations, including financial reporting systems, internal control over financial reporting, and disclosure controls and procedures.

While we have a distributed workforce and our employees are accustomed to working remotely or working with other remote employees, our workforce was not trained to be fully remote. Our employees historically have travelled frequently to establish and maintain relationships with one another, as well as our customers, partners, and investors. Due to the ongoing and uncertain nature of the pandemic caused in part by recent variants of COVID-19, it is unclear when or if our employees will be able to return to pre-pandemic levels of travel, which may impact our ability to establish and maintain relationships with our customers, partners and investors for the foreseeable future. Further, an increase in COVID-19 cases caused by new variants of the coronavirus may result in increased travel and other restrictions in the future, which will likely have an adverse impact on our business. As a result of COVID-19 we have experienced and expect to continue to experience an increase in the average length of sales cycles to onboard new customers, delays in new projects, and requests by some customers for extension of payment obligations, all of which adversely affect and could materially adversely impact our business, results of operations, and overall financial condition in future periods.

We have experienced slowed growth during the COVID-19 pandemic. We expect to continue to experience slowed growth for new customers and fewer orders from our existing customers for upgrades within our platform. We have experienced and expect to continue to experience an increase in the average length of sales cycles and delays in new projects, both of which have adversely affected and could materially adversely impact our business, results of operations, and overall financial condition in future periods. The extent and continued impact of the COVID-19 pandemic on our operational and financial condition will depend on certain developments, including: the duration and spread of the outbreak as may be affected by variants of the coronavirus; government responses to the pandemic and variants of the coronavirus; the efficacy of COVID-19 vaccines; the impact of the pandemic on the health and welfare of our employees and their families; its impact on our customers and our sales cycles; its impact on customer, industry, or technology-based community events; delays in onboarding new employees; and effects on our partners, some of which are uncertain, difficult to predict, and not within our control. General economic conditions and disruptions in global markets due to the COVID-19 pandemic may also affect our future performance.

As of the date of this Quarterly Report on Form 10-Q, the full impact of the COVID-19 pandemic on the global economy and the extent to which the pandemic may impact our financial condition or results of operations remain uncertain. Furthermore,

because of our subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations and overall financial condition until future periods, if at all.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sale of Equity Securities

In February 2022, pursuant to acquisition agreement related to our previous acquisition of a privately held company, we issued an aggregate of 48,183 ordinary shares as consideration to individuals and entities who were former service providers and/or shareholders of such company.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. We believe the offers, sales, and issuances of the above securities were exempt from registration under the Securities Act (or Regulation D or Regulation S promulgated thereunder) by virtue of Section 4(a)(2) of the Securities Act because the issuance of securities to the recipients did not involve a public offering, or in reliance on Rule 701 because the transactions were pursuant to compensatory benefit plans or contracts relating to compensation as provided under such rule. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with us, to information about us. The sales of these securities were made without any general solicitation or advertising.

Use of Proceeds

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The documents listed below are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.				
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.				
101 INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101 SCH	Inline XBRL Taxonomy Extension Schema Document.				
101 CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				
101 DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.				
101 LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.				
101 PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).				

* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14a OF
THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES OXLEY ACT OF 2002**

I, Shlomi Ben Haim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of JFrog Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2022

JFROG LTD.

/s/ Shlomi Ben Haim

Shlomi Ben Haim

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14a OF
THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES OXLEY ACT OF 2002**

I, Jacob Shulman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of JFrog Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2022

JFROG LTD.

/s/ Jacob Shulman

Jacob Shulman

Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Shlomi Ben Haim, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of JFrog Ltd. for the fiscal quarter ended March 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of JFrog Ltd.

Date: May 9, 2022

JFROG LTD.

/s/ Shlomi Ben Haim

Shlomi Ben Haim

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Jacob Shulman, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of JFrog Ltd. for the fiscal quarter ended March 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of JFrog Ltd.

Date: May 9, 2022

JFROG LTD.

/s/ Jacob Shulman

Jacob Shulman

Chief Financial Officer

(Principal Financial Officer)
