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 September 30, 2021

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	**98-0680649**
(State or other jurisdiction of incorporation or organization)	**(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.

☐ Large accelerated filer	☐ Accelerated filer
☒ Non-accelerated filer	☐ Smaller reporting company
☒ 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 October 29, 2021, the registrant had 96,390,794 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 the coronavirus, protests or riots 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	
	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 84,607	$ 164,461
Short-term investments	317,776	433,595
Accounts receivable, net	43,845	37,048
Deferred contract acquisition costs	4,491	3,247
Prepaid expenses and other current assets	19,031	14,210
Total current assets	469,750	652,561
Property and equipment, net	6,421	4,963
Deferred contract acquisition costs, noncurrent	7,550	4,949
Operating lease right-of-use assets	27,421	—
Intangible assets, net	50,835	4,047
Goodwill	247,776	17,320
Other assets, noncurrent	19,926	5,391
Total assets	$ 829,679	$ 689,231
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 9,705	$ 9,911
Accrued expenses and other current liabilities	19,638	21,039
Operating lease liabilities	6,917	—
Deferred revenue	110,905	91,750
Total current liabilities	147,165	122,700
Deferred revenue, noncurrent	16,013	11,087
Operating lease liabilities, noncurrent	21,118	—
Other liabilities, noncurrent	1,140	1,550
Total liabilities	185,436	135,337
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred shares, NIS 0.01 par value per share; 50,000,000 shares authorized; 0 issued and outstanding as of September 30, 2021 and December 31, 2020	—	—
Ordinary shares, NIS 0.01 par value per share, 500,000,000 shares authorized; 96,205,496 and 92,112,447 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	269	257
Additional paid-in capital	760,378	628,054
Accumulated other comprehensive income (loss)	(107)	372
Accumulated deficit	(116,297)	(74,789)
Total shareholders' equity	644,243	553,894
Total liabilities and shareholders' equity	$ 829,679	$ 689,231

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
Subscription—self-managed and SaaS	$ 49,248	$ 35,714	$ 135,898	$ 99,172
License—self-managed	4,455	3,172	11,549	8,966
Total subscription revenue	53,703	38,886	147,447	108,138
Cost of revenue:				
Subscription—self-managed and SaaS	11,262	7,047	28,379	19,712
License—self-managed	199	214	580	642
Total cost of revenue—subscription	11,461	7,261	28,959	20,354
Gross profit	42,242	31,625	118,488	87,784
Operating expenses:				
Research and development	23,142	10,381	53,666	29,452
Sales and marketing	24,321	14,839	66,112	42,744
General and administrative	15,695	11,804	44,469	21,748
Total operating expenses	63,158	37,024	164,247	93,944
Operating loss	(20,916)	(5,399)	(45,759)	(6,160)
Interest and other income, net	20	384	726	1,522
Loss before income taxes	(20,896)	(5,015)	(45,033)	(4,638)
Income tax expense (benefit)	(432)	250	(3,525)	1,053
Net loss	$ (20,464)	$ (5,265)	$ (41,508)	$ (5,691)
Net loss per share attributable to ordinary shareholders, basic and diluted	$ (0.21)	$ (0.14)	$ (0.44)	$ (0.18)
Weighted-average shares used in computing net loss per share attributable to ordinary shareholders, basic and diluted	95,707,062	37,515,828	94,028,537	31,359,164

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss	$ (20,464)	$ (5,265)	$ (41,508)	$ (5,691)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available-for-sale marketable securities, net	(75)	(218)	(39)	77
Unrealized gain (loss) on derivative instruments, net	(41)	(232)	(440)	227
Other comprehensive income (loss)	(116)	(450)	(479)	304
Comprehensive loss	$ (20,580)	$ (5,715)	$ (41,987)	$ (5,387)

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

JFROG LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' EQUITY (DEFICIT)
(in thousands, except share data)
(unaudited)

	Three Months Ended September 30, 2021					
	Ordinary Shares		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Shareholders'
	Shares	Amount	Capital	Income (Loss)	Deficit	Equity
Balance as of June 30, 2021	93,988,276	$ 262	$ 657,509	$ 9	$ (95,833)	$ 561,947
Issuance of ordinary shares upon exercise of share options	216,120	1	1,153	—	—	1,154
Issuance of ordinary shares upon release of restricted share units	33,373	(*)	(*)	—	—	—
Issuance of ordinary shares under the employee share purchase plan	94,638	(*)	3,092	—	—	3,092
Issuance of ordinary shares related to business combinations	1,873,089	6	81,767	—	—	81,773
Share-based compensation expense	—	—	16,857	—	—	16,857
Other comprehensive loss, net of tax	—	—	—	(116)	—	(116)
Net loss	—	—	—	—	(20,464)	(20,464)
Balance as of September 30, 2021	96,205,496	$ 269	$ 760,378	$ (107)	$ (116,297)	$ 644,243

	Three Months Ended September 30, 2020							
	Convertible Preferred Shares		Ordinary Shares		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Capital	Income	Deficit	(Deficit)
Balance as of June 30, 2020	52,063,647	$ 175,844	28,473,128	$ 81	$ 37,479	$ 789	$ (65,810)	$ (27,461)
Conversion of convertible preferred shares to ordinary shares upon initial public offering	(52,063,647)	(175,844)	52,063,647	142	175,702	—	—	175,844
Issuance of ordinary shares upon initial public offering, net of underwriting discounts and commissions and other issuance costs	—	—	9,735,232	29	393,204	—	—	393,233
Issuance of ordinary shares upon exercise of share options	—	—	675,840	2	815	—	—	817
Issuance of ordinary shares upon release of restricted share units	—	—	138,400	(*)	(*)	—	—	—
Issuance of ordinary shares related to business combination	—	—	49,823	(*)	(*)	—	—	—
Share-based compensation expense	—	—	—	—	9,660	—	—	9,660
Other comprehensive loss, net of tax	—	—	—	—	—	(450)	—	(450)
Net loss	—	—	—	—	—	—	(5,265)	(5,265)
Balance as of September 30, 2020	—	$ —	91,136,070	$ 254	$ 616,860	$ 339	$ (71,075)	$ 546,378

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

JFROG LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' EQUITY (DEFICIT)
(in thousands, except share data)
(unaudited)

	Nine Months Ended September 30, 2021						
	Ordinary Shares		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Shareholders'	
	Shares	Amount	Capital	Income (loss)	Deficit	Equity	
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	2,042,126	6	4,754	—	—	4,760	
Issuance of ordinary shares upon release of restricted share units	33,373	(*)	(*)	—	—	—	
Issuance of ordinary shares under the employee share purchase plan	94,638	(*)	3,092	—	—	3,092	
Issuance of ordinary shares related to business combination	1,922,912	6	81,767	—	—	81,773	
Share-based compensation expense	—	—	42,711	—	—	42,711	
Other comprehensive loss, net of tax	—	—	—	(479)	—	(479)	
Net loss	—	—	—	—	(41,508)	(41,508)	
Balance as of September 30, 2021	96,205,496	$ 269	$ 760,378	$ (107)	$ (116,297)	$ 644,243	

	Nine Months Ended September 30, 2020								
	Convertible Preferred Shares		Ordinary Shares		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Shareholders' Equity	
	Shares	Amount	Shares	Amount	Capital	Income	Deficit	(Deficit)	
Balance as of December 31, 2019	52,063,647	$ 175,844	27,930,741	$ 80	$ 31,835	$ 35	$ (65,384)	$ (33,434)	
Conversion of convertible preferred shares to ordinary shares upon initial public offering	(52,063,647)	(175,844)	52,063,647	142	175,702	—	—	175,844	
Issuance of ordinary shares upon initial public offering, net of underwriting discounts and commissions and other issuance costs	—	—	9,735,232	29	393,204	—	—	393,233	
Issuance of ordinary shares upon exercise of share options	—	—	1,115,535	3	1,720	—	—	1,723	
Issuance of ordinary shares upon release of restricted share units			138,400	(*)	(*)	—	—	—	
Issuance of ordinary shares related to business combination	—	—	152,515	(*)	(*)	—	—	—	
Share-based compensation expense	—	—	—	—	14,399	—	—	14,399	
Other comprehensive income, net of tax	—	—	—	—	—	304	—	304	
Net loss	—	—	—	—	—	—	(5,691)	(5,691)	
Balance as of September 30, 2020	—	$ —	91,136,070	$ 254	$ 616,860	$ 339	$ (71,075)	$ 546,378	

(*) Amount less than $1.

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)

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	$ (41,508)	$ (5,691)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,140	2,683
Share-based compensation expense	42,711	14,399
Non-cash operating lease expense	4,298	—
Net amortization of premium or discount on investments	4,482	1,012
Changes in operating assets and liabilities, net of business combinations:		
Accounts receivable	(6,172)	(807)
Prepaid expenses and other assets	(18,684)	(4,285)
Deferred contract acquisition costs	(3,845)	(994)
Accounts payable	(679)	2,273
Accrued expenses and other liabilities	5,663	4,063
Operating lease liabilities	(3,935)	—
Deferred revenue	22,770	3,989
Net cash provided by operating activities	10,241	16,642
Cash flows from investing activities:		
Purchases of short-term investments	(170,674)	(235,773)
Maturities and sales of short-term investments	281,973	108,421
Purchases of property and equipment	(3,190)	(2,611)
Payments for business combinations, net of cash acquired	(195,752)	—
Prepayment for purchase of intangible asset	(600)	—
Net cash used in investing activities	(88,243)	(129,963)
Cash flows from financing activities:		
Proceeds from initial public offerings, net of underwriting discounts and commissions and other issuance costs	—	395,211
Proceeds from exercise of share options	4,760	1,723
Proceeds from employee share purchase plan	3,092	—
Payments to tax authorities from employee equity transactions, net	(8,946)	—
Net cash provided by (used in) financing activities	(1,094)	396,934
Net increase (decrease) in cash, cash equivalents, and restricted cash	(79,096)	283,613
Cash, cash equivalents, and restricted cash—beginning of period	164,739	40,943
Cash, cash equivalents, and restricted cash—end of period	$ 85,643	$ 324,556
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	$ 84,607	$ 324,288
Restricted cash included in prepaid expenses and other current assets	787	14
Restricted cash included in other assets, noncurrent	249	254
Total cash, cash equivalents, and restricted cash	$ 85,643	$ 324,556

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

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 for Continuous Software Release Management 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, 2020 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, 2020, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 12, 2021.

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 September 30, 2021 and the Company’s consolidated results of operations and convertible preferred shares and shareholders’ equity (deficit) for the three and nine months ended September 30, 2021 and 2020, and cash flows for the nine months ended September 30, 2021 and 2020. The results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results to be expected for the full year ending December 31, 2021 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 doubtful accounts, the fair value of financial assets and liabilities, including accounting and 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, share-based compensation including the determination of the fair value of the Company’s share-based awards, 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, 2020. There have been no significant changes to these policies during the nine months ended September 30, 2021, except as noted in the section titled “*Recently Adopted Accounting Pronouncements*” below.

Emerging Growth Company Status

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act ("JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it (i) is no longer an emerging growth company or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, the condensed consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

On the last business day of the Company's second quarter in fiscal 2021, the aggregate market value of the Company's ordinary shares held by its non-affiliate shareholders exceeded $700 million. As a result, as of December 31, 2021, the Company will be considered a large accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934 and the Company will cease to be an emerging growth company. Accordingly, the Company will no longer be exempt from the auditor attestation requirements under Section 404(b) of the Sarbanes-Oxley Act of 2002, as amended, and the Company's independent registered public accounting firm will evaluate and report on the effectiveness of internal control over financial reporting. Further, following the loss of emerging growth company status, the Company will be required to comply with any new or revised accounting pronouncements as of public company effective dates.

Recently Adopted Accounting Pronouncements

In reliance on the extended transition period allowed for emerging growth companies under the JOBS Act, the Company has elected to use the adoption dates discussed below.

In February 2016, the Financial Accounting Standards ("FASB") issued ASU No. 2016-02, Leases (Topic 842), which would require lessees to put all leases on their balance sheets, whether operating or financing, while continuing to recognize the expenses on their income statements in a manner similar to the existing practice. The guidance states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-of-use ("ROU") asset for the right to use the underlying asset for the lease term.

The Company adopted the guidance on January 1, 2021 using a modified retrospective transition approach. It applied Topic 842 to all leases as of January 1, 2021 without adjusting the comparative periods presented. The Company elected certain practical expedients permitted under the transition guidance within the new guidance and carried forward the historical accounting relating to lease identification and classification, remaining lease terms, and initial direct costs. Upon adoption, the Company recognized operating lease ROU assets of $21.9 million and operating lease liabilities of $22.1 million. Operating lease ROU assets included adjustments for prepayments and accrued lease payments. The adoption of Topic 842 did not have a material impact to the Company's results of operations or cash flows. See Note 10, *Leases*, for further information.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new standard requires capitalized costs to be amortized on a straight-line basis generally over the term of the arrangement, and the financial statement presentation for these capitalized costs would be the same as that of the fees related to the hosting arrangements. The Company adopted this guidance prospectively on January 1, 2021, and the adoption did not have a material impact on its condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance will be effective for the Company beginning January 1, 2023, and interim periods therein. Early adoption is permitted. The Company does not expect the adoption of this new standard will have a material effect on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by removing a variety of exceptions within the framework of ASC 740. These exceptions include the exception to the incremental approach for intra-period tax allocation in the event of a loss from continuing operations and income or a gain from other items (such as other comprehensive income), and the exception to using general methodology for the interim period tax accounting for year-to-date losses that exceed anticipated losses. The guidance will be effective for the Company beginning January 1, 2022, and interim periods in fiscal years beginning January 1, 2023. Early adoption is permitted. The Company does not expect the adoption of this new standard will have a material effect on its condensed consolidated financial statements.

3. Revenue Recognition

Disaggregation of Revenue

The following table presents revenue by category:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue
	(in thousands, except percentages)							
Self-managed subscription	$ 40,591	76 %	$ 30,161	78 %	$ 112,604	76 %	$ 85,269	79 %
Subscription	36,136	68	26,989	70	101,055	68	76,303	71
License	4,455	8	3,172	8	11,549	8	8,966	8
SaaS	13,112	24	8,725	22	34,843	24	22,869	21
Total subscription revenue	$ 53,703	100 %	$ 38,886	100 %	$ 147,447	100 %	$ 108,138	100 %

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue
	(in thousands, except percentages)							
United States	$ 33,769	63 %	$ 24,924	64 %	$ 92,453	63 %	$ 69,429	64 %
Israel	1,049	2	726	2	3,107	2	2,020	2
Rest of world	18,885	35	13,236	34	51,887	35	36,689	34
Total subscription revenue	$ 53,703	100 %	$ 38,886	100 %	$ 147,447	100 %	$ 108,138	100 %

Contract Balances

Of the $119.2 million and $82.9 million of deferred revenue recorded as of June 30, 2021 and 2020, respectively, the Company recognized $38.6 million and $28.4 million as revenue during the three months ended September 30, 2021 and 2020, respectively. Of the $102.8 million and $82.3 million of deferred revenue recorded as of December 31, 2020 and 2019, respectively, the Company recognized $74.7 million and $64.1 million as revenue during the nine months ended September 30, 2021 and 2020, respectively.

Remaining Performance Obligation

The Company's remaining performance obligations are comprised of product and service revenue not yet delivered. As of September 30, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was $139.7 million, which consists of billed considerations of $126.9 million and unbilled considerations of $12.8 million, that the Company expects to recognize as revenue. As of September 30, 2021, the Company expects to recognize 82% 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 September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
	(in thousands)			
Beginning balance	$ 10,476	$ 6,434	$ 8,196	$ 5,989
Additions to deferred contract acquisition costs	2,749	1,303	7,113	3,088
Amortization of deferred contract acquisition costs	(1,184)	(754)	(3,268)	(2,094)
Ending balance	$ 12,041	$ 6,983	$ 12,041	$ 6,983
Deferred contract acquisition costs (to be recognized in next 12 months)	$ 4,491	$ 2,864	$ 4,491	$ 2,864
Deferred contract acquisition costs, noncurrent	7,550	4,119	7,550	4,119
Total deferred contract acquisition costs	$ 12,041	$ 6,983	$ 12,041	$ 6,983

4. Short-Term Investments

Short-term investments consisted of the following:

	September 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Bank deposits	$ 83,605	$ —	$ —	$ 83,605
Certificates of deposit	252	—	—	252
Commercial paper	46,832	3	(9)	46,826
Corporate debt securities	108,566	2	(79)	108,489
Municipal securities	53,873	1	(20)	53,854
Government and agency debt	24,756	1	(7)	24,750
Marketable securities	234,279	7	(115)	234,171
Total short-term investments	$ 317,884	$ 7	$ (115)	$ 317,776

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Bank deposits	$ 133,386	$ —	$ —	$ 133,386
Certificates of deposit	10,802	20	(1)	10,821
Commercial paper	34,150	3	(2)	34,151
Corporate debt securities	128,694	11	(82)	128,623
Municipal securities	54,238	7	(12)	54,233
Government and agency debt	72,394	5	(18)	72,381
Marketable securities	300,278	46	(115)	300,209
Total short-term investments	$ 433,664	$ 46	$ (115)	$ 433,595

Based on the available evidence, the Company concluded that the gross unrealized losses on the marketable securities as of September 30, 2021 and December 31, 2020 are temporary in nature. See Note 13, *Accumulated Other Comprehensive Income*, 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. As of September 30, 2021, the contractual maturities of the Company's marketable securities were all less than one year.

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:

	September 30, 2021		
	Fair Value	Level 1	Level 2
		(in thousands)	
Financial Assets:			
Money market funds	$ 38,951	$ 38,951	$ —
Government and agency debt	1,000	—	1,000
Cash equivalents	39,951	38,951	1,000
Bank deposits	83,605	—	83,605
Certificates of deposit	252	—	252
Commercial paper	46,826	—	46,826
Corporate debt securities	108,489	—	108,489
Municipal securities	53,854	—	53,854
Government and agency debt	24,750	—	24,750
Short-term investments	317,776	—	317,776
Foreign currency contracts designated as hedging instruments included in prepaid expenses and other current assets	105	—	105
Foreign currency contracts not designated as hedging instruments included in prepaid expenses and other current assets	18	—	18
Restricted bank deposits included in prepaid expenses and other current assets	787	—	787
Restricted bank deposits included in other assets, noncurrent	249	—	249
Total financial assets	$ 358,886	$ 38,951	$ 319,935
Financial Liabilities:			
Foreign currency contracts designated as hedging instruments included in accrued expenses and other current liabilities	$ 103	$ —	$ 103
Foreign currency contracts not designated as hedging instruments included in accrued expenses and other current liabilities	4	—	4
Total financial liabilities	$ 107	$ —	$ 107

	December 31, 2020		
	Fair Value	Level 1	Level 2
		(in thousands)	
Financial Assets:			
Money market funds	$ 111,080	$ 111,080	$ —
Certificates of deposit	274	—	274
Cash equivalents	111,354	111,080	274
Bank deposits	133,386	—	133,386
Certificates of deposit	10,821	—	10,821
Commercial paper	34,151	—	34,151
Corporate debt securities	128,623	—	128,623
Municipal securities	54,233	—	54,233
Government and agency debt	72,381	—	72,381
Short-term investments	433,595	—	433,595
Foreign currency contracts designated as hedging instruments included in prepaid expenses and other current assets	468	—	468
Foreign currency contracts not designated as hedging instruments included in prepaid expenses and other current assets	2	—	2
Restricted bank deposits included in prepaid expenses and other current assets	14	—	14
Restricted bank deposits included in other assets, noncurrent	264	—	264
Total financial assets	$ 545,697	$ 111,080	$ 434,617
Financial Liabilities:			
Foreign currency contracts designated as hedging instruments included in accrued expenses and other current liabilities	$ 16	$ —	$ 16
Total financial liabilities	$ 16	$ —	$ 16

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, certificates of deposit, 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 September 30, 2021 and December 31, 2020, 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:

	September 30, 2021	December 31, 2020
	(in thousands)	
Derivatives Designated as Hedging Instruments:		
Foreign currency contracts	$ 22,190	$ 10,264
Derivatives Not Designated as Hedging Instruments:		
Foreign currency contracts	3,468	1,230
Total derivative instruments	$ 25,658	$ 11,494

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 gain or loss on the derivative to the same financial statement line item in the Condensed Consolidated Statements of Operations to which the derivative relates. From time to time, the Company may discontinue cash flow hedges and record 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 not currently 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 September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
Condensed Statement of Operations Location:	2021	2020	2021	2020	2021	2020	2021	2020
	(in thousands)							
Cost of revenue: subscription–self-managed and SaaS	$ 12	$ 31	$ 33	$ 28	$ —	$ —	$ —	$ —
Research and development	80	199	212	179	—	—	—	—
Sales and marketing	19	71	59	64	—	—	—	—
General and administrative	28	76	75	68	—	—	—	—
Interest and other income, net	—	—	8	—	75	5	144	115
Total gains recognized in earnings	$ 139	$ 377	$ 387	$ 339	$ 75	$ 5	$ 144	$ 115

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 13, *Accumulated Other Comprehensive Income*, 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 September 30, 2021 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:

	September 30, 2021	December 31, 2020
	(in thousands)	
Computer and software	$ 5,958	$ 4,079
Furniture and office equipment	2,100	1,495
Leasehold improvements	4,782	3,761
Property and equipment, gross	12,840	9,335
Less: accumulated depreciation and amortization	(6,419)	(4,372)
Property and equipment, net	$ 6,421	$ 4,963

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2021	December 31, 2020
	(in thousands)	
Accrued compensation and benefits	$ 14,453	$ 8,799
Withholding tax from employee equity transactions to be remitted to tax authorities	240	9,186
Accrued expenses	4,945	3,054
Accrued expenses and other current liabilities	$ 19,638	$ 21,039

8. Business Combinations

Vdoo Connected Trust Ltd.

On July 19, 2021, the Company acquired 100% of the share capital of Vdoo Connected Trust Ltd. (“Vdoo”), a privately-held company in Israel, which provides a product security platform for automating all software security tasks throughout the entire product lifecycle. The acquisition accelerates the Company’s security technology expansion, aiming to deliver a holistic security solution as part of its Platform.

The total purchase consideration transferred for the Vdoo acquisition was $299.3 million, subject to working capital adjustments, comprised of $217.5 million in cash and $81.8 million for the fair value of 1,823,266 shares of the Company’s ordinary shares issued. In addition to the purchase consideration and pursuant to holdback agreements with certain Vdoo employees, the Company transferred $13.2 million in cash and committed to issue 110,932 shares of the Company’s ordinary shares, which is expected to be released to these employees in one to two years from the acquisition date, subject to their continued service. The Company also agreed to pay up to a $10.0 million retention bonus to Vdoo continuing employees in three annual installments following the acquisition date. The payouts or vesting of the holdback and the retention considerations are subject to continued employment, and therefore recognized as compensation expense over the requisite service period. In addition, pursuant to the purchase agreement, on July 19, 2021, the Company issued approximately $30.0 million of restricted share units (“RSUs”) to Vdoo employees in accordance with the terms of the Company’s equity incentive plan, which is expected to vest and be expensed over an approximately 4-year service period.

The following table summarizes the preliminary fair value of assets acquired and liabilities assumed:

	July 19, 2021
	(in thousands)
Cash and cash equivalent	$ 31,240
Other current assets	943
Intangible assets	45,500
Goodwill	224,673
Other noncurrent assets	2,692
Total assets acquired	305,048
Current liabilities	4,272
Noncurrent liabilities	1,501
Total liabilities assumed	5,773
Total purchase consideration	$ 299,275

Goodwill is primarily attributable to expected synergies arising from technology integration and expanded product availability to the Company’s existing and new customers. Goodwill is not deductible for income tax purpose. The following table presents components of the identified intangible assets acquired and their estimated useful lives as of the date of acquisition:

	Fair Value	Useful Life
	(in thousands)	(in years)
Developed technology	$ 41,300	5.0
Customer relationships	4,200	6.0
Total intangible assets acquired	$ 45,500	

The results of operations of Vdoo have been included in the condensed consolidated financial statements since the date of the acquisition. Additionally, the Company incurred transaction costs $0.3 million and $0.7 million during the three and nine months ended September 30, 2021, which were included in general and administrative expenses in the Condensed Consolidated Statements of Operations.

The following unaudited pro forma information presents the combined results of operations of the Company and Vdoo as if the acquisition of Vdoo had been completed on January 1, 2020. The unaudited pro forma results include adjustments primarily related to amortization of the acquired intangible assets, recognition of cash and share-based compensation associated with RSU grants, retention and holdback arrangements, as referenced above, as of the earliest period presented.

The unaudited pro forma results do not reflect any cost saving synergies from operating efficiencies or the effect of the incremental costs incurred from integrating Vdoo. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the acquisition of Vdoo had occurred at the beginning of 2020.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in thousands)			
Revenue	$ 53,795	$ 39,293	$ 148,588	$ 109,096
Net loss	$ 22,895	$ 15,699	$ 67,244	$ 36,008

Upswift Ltd.

In August 2021, we completed the acquisition of Upswift Ltd., a privately-held company providing device management platform for total consideration of $9.5 million, net of cash acquired. Of the purchase consideration, $4.3 million was attributed to identified intangible assets, $5.8 million to goodwill, and $0.6 million to net liabilities assumed.

9. Goodwill and Intangible Assets, Net

Goodwill

The following table represents the changes to goodwill:

	Nine Months Ended September 30, 2021
	(in thousands)
Balance as of December 31, 2020	$ 17,320
Additions from acquisitions	230,456
Balance as of September 30, 2021	$ 247,776

Intangible Assets, Net

Intangible assets consisted of the following as of September 30, 2021:

	Gross Fair Value	Accumulated Amortization	Net Book Value	Weighted-Average Remaining Useful Life
		(in thousands)		(in years)
Developed technology	$ 50,347	$ (4,417)	$ 45,930	4.6
Customer relationships	5,541	(661)	4,880	5.4
Other intangible assets	1,586	(1,561)	25	0.1
Total	$ 57,474	$ (6,639)	$ 50,835	

Intangible assets consisted of the following as of December 31, 2020:

	Gross Fair Value	Accumulated Amortization	Net Book Value	Weighted-Average Remaining Useful Life
		(in thousands)		(in years)
Developed technology	$ 4,856	$ (2,064)	$ 2,792	3.7
Customer relationships	1,200	(367)	833	4.2
Other intangible assets	1,586	(1,164)	422	0.8
Total	$ 7,642	$ (3,595)	$ 4,047	

Amortization expenses for intangible assets were $2.3 million and $0.4 million for the three months ended September 30, 2021 and 2020, respectively, and $3.0 million and $1.2 million for the nine months ended September 30, 2021 and 2020, respectively. Amortization of developed technology is included in cost of revenue and amortization of customer relationships and other intangible assets are included in sales and marketing expense in the condensed consolidated statements of operations.

The expected future amortization expenses by year related to the intangible assets as of September 30, 2021 are as follows:

	September 30, 2021
	(in thousands)
Year Ending December 31,	
2021 (Remainder)	$ 2,867
2022	11,365
2023	11,291
2024	10,590
2025	9,110
Thereafter	5,612
Total	$ 50,835

10. Leases

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

The Company determines if an arrangement is a lease at inception. As discussed in Note 2, *Summary of Significant Accounting Policies*, operating lease ROU assets and liabilities are included on the Condensed Consolidated Balance Sheet beginning January 1, 2021. The Company currently does not have any finance leases.

Operating lease ROU assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The Company combines its lease payments and fixed payments for non-lease components and account for them together as a single lease component. Operating lease ROU assets also include any prepaid lease payments and lease incentives. Certain lease agreements include rental payments adjusted periodically for the consumer price index ("CPI"). The ROU and lease liability were calculated using the initial CPI and will not be subsequently adjusted. Payments for variable lease costs are expensed as incurred and not included in the operating lease ROU assets and liabilities. For short-term leases with a term of 12 months or less, operating lease ROU assets and liabilities are not recognized and the Company records lease payments in the Condensed Consolidated Statements of Operations on a straight-line basis over the lease term.

The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate, because the interest rate implicit in the Company's leases is not readily determinable. The Company's incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. Many of the Company's lease agreements provide one or more options to renew. When determining lease terms, the Company uses the non-cancellable period of the leases and do not assume renewals unless it is reasonably certain that the Company will exercise that option. Operating lease expense is recognized on a straight-line basis over the lease term.

Components of operating lease expense were as follows:

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
	(in thousands)	
Operating lease cost	$ 1,742	$ 4,407
Short-term lease cost	29	93
Variable lease cost	90	285
Total operating lease cost	$ 1,861	$ 4,785

Rent expense under the previous lease accounting standard was $0.9 million and $3.0 million during the three and nine months ended September 30, 2020, respectively.

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

	Nine Months Ended September 30, 2021
	(in thousands)
Cash paid for operating leases	$ 4,016
ROU assets obtained in exchange for new operating lease liabilities	$ 2,653
Adjustment to ROU assets upon modification of existing lease	$ 4,588

As of September 30, 2021, the weighted-average discount rate is 0.9% and the weighted-average remaining term is 4.1 years. Maturities of the Company's operating lease liabilities as of September 30, 2021 were as follows:

	September 30, 2021
	(in thousands)
Year Ending December 31,	
2021 (Remainder)	$ 1,640
2022	7,296
2023	7,038
2024	6,012
2025	4,804
Thereafter	1,755
Total operating lease payments	28,545
Less: imputed interest	(510)
Total operating lease liabilities	$ 28,035

As of December 31, 2020, the minimum lease payments under operating leases, including payments for leases which had not commenced, were as follows:

	December 31, 2020
	(in thousands)
Year Ending December 31,	
2021	$ 5,475
2022	5,931
2023	5,429
2024	4,607
2025	3,389
Thereafter	803
Total	$ 25,634

11. Commitments and Contingencies

Non-cancelable Purchase Obligations

In the normal course of business, the Company enters into non-cancelable purchase commitments with various parties for mainly hosting services, as well as software products and services. As of September 30, 2021, the Company had outstanding non-cancelable purchase obligations with a term of 12 months or longer as follows:

		September 30, 2021 (in thousands)
Year Ending December 31,		
2021 (Remainder)	$	335
2022		14,013
2023		25,616
2024		18,000
2025		29,658
Total	$	87,622

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.

12. Shareholders' Equity and Equity Incentive Plans

Equity Incentive Plans

On January 1, 2021, the number of ordinary shares authorized for issuance under the 2020 Equity Incentive Plan (the "2020 Plan") automatically increased by 5,307,818 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			
	Outstanding Share Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
	(in thousands, except share, life and per share data)			
Balance as of December 31, 2020	13,075,489	$ 6.50	6.8	$ 736,478
Granted	30,000	$ 65.96		
Exercised	(2,042,126)	$ 2.33		$ 103,916
Forfeited	(487,155)	$ 15.12		
Balance as of September 30, 2021	10,576,208	$ 7.08	6.2	$ 280,285
Exercisable as of September 30, 2021	5,616,757	$ 3.48	4.9	$ 168,670

The weighted-average grant date fair value of options granted during the nine months ended September 30, 2021 was $42.00, and $19.26 and $15.46 during the three and nine months ended September 30, 2020, respectively. No share options were granted during the three months ended September 30, 2021. The total intrinsic value of option exercised during the nine months ended September 30, 2020 was $33.1 million.

Restricted Share Units

A summary of RSU activity and related information under the Company's equity incentive plan and a stand-alone RSU award to the Company's Chief Executive Officer in August 2020 is as follows:

	RSUs	
	Unvested RSUs	Weighted-Average Grant Date Fair Value Per Share
Unvested as of December 31, 2020	818,945	$ 48.38
Granted	3,113,825	$ 47.85
Vested and released	(33,373)	$ 59.40
Canceled/forfeited	(268,395)	$ 57.75
Unvested as of September 30, 2021	3,631,002	$ 47.13

The total fair value of RSUs, as of their respective release dates, was $1.3 million and $6.1 million during the nine months ended September 30, 2021 and 2020, respectively.

Employee Share Purchase Plan

On January 1, 2021, the number of ordinary shares authorized for issuance under the 2020 Employee Share Purchase Plan ("ESPP") automatically increased by 922,570 shares pursuant to the terms of ESPP. 94,638 ordinary shares were purchased during the nine months ended September 30, 2021.

Shares Reserved for Future Issuance

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

	September 30, 2021
Outstanding share options	10,576,208
Outstanding RSUs	3,631,002
Issuable ordinary shares related to business combinations	160,758
Shares available for future issuance under the 2020 Plan	12,883,849
Shares available for future issuance under ESPP	2,927,932
Total ordinary shares reserved	30,179,749

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in thousands)			
Cost of revenue: subscription–self-managed and SaaS	$ 1,180	$ 327	$ 2,766	$ 666
Research and development	4,547	1,086	9,056	2,782
Sales and marketing	4,307	1,263	10,552	3,033
General and administrative	6,823	6,984	20,337	7,918
Total share-based compensation expense	$ 16,857	$ 9,660	$ 42,711	$ 14,399

As of September 30, 2021, unrecognized share-based compensation cost related to unvested share-based compensation awards was $183.6 million, which is expected to be recognized over a weighted-average period of 3.4 years.

13. 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 on Derivatives Designated as Hedging Instruments	Total
	(in thousands)		
Balance as of December 31, 2020	$ (69)	$ 441	$ 372
Other comprehensive income (loss) before reclassifications	(35)	(53)	(88)
Net realized gains reclassified from AOCI	(4)	(387)	(391)
Other comprehensive loss	(39)	(440)	(479)
Balance as of September 30, 2021	$ (108)	$ 1	$ (107)

	Net Unrealized Gains on Available-for-Sale Marketable Securities	Net Unrealized Gains on Derivatives Designated as Hedging Instruments	Total
	(in thousands)		
Balance as of December 31, 2019	$ 35	$ —	$ 35
Other comprehensive income before reclassifications	66	566	632
Net realized losses (gains) reclassified from AOCI	11	(339)	(328)
Other comprehensive income	77	227	304
Balance as of September 30, 2020	$ 112	$ 227	$ 339

14. 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 $(0.4) million and $0.3 million for the three months ended September 30, 2021 and 2020, respectively, and $(3.5) million and $1.1 million for the nine months ended September 30, 2021 and 2020, respectively. The income tax expense (benefit) for the periods consisted primarily of income taxes related to the U.S. In addition, the income tax benefit during the three and nine months ended September 30, 2021 included a tax benefit of $0.4 million from a partial release of valuation allowance associated with the acquisitions.

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 nine months ended September 30, 2021, 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.

As of September 30, 2021, the Company is under examination of its income tax returns by the Israeli Tax Authorities for the years from 2015 through 2018. The Company does not believe the resolution of the examination will have a material impact on the Company's consolidated financial statements.

Our gross unrecognized tax benefits were $4.1 million and $2.7 million as of September 30, 2021 and December 31, 2020, respectively. The net increase to our gross unrecognized tax benefit is primarily the result of $1.4 million increase in current year tax positions. As of September 30, 2021, the Company does not expect its unrecognized tax benefits to change significantly within the next twelve months.

15. Net Loss Per Share Attributable to Ordinary Shareholders

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in thousands, except share and per share data)			
Numerator:				
Net loss	$ (20,464)	$ (5,265)	$ (41,508)	$ (5,691)
Denominator:				
Weighted-average shares used in computing net loss per share attributable to ordinary shareholders, basic and diluted	95,707,062	37,515,828	94,028,537	31,359,164
Net loss per share attributable to ordinary shareholders, basic and diluted	$ (0.21)	$ (0.14)	$ (0.44)	$ (0.18)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Convertible preferred shares	—	44,706,827	—	49,593,474
Outstanding share options	10,810,724	14,212,886	11,577,203	13,636,488
Unvested RSUs	3,071,760	208,137	1,994,319	69,886
Share purchase rights under the ESPP	102,202	—	65,603	—
Issuable ordinary shares related to business combination	170,464	180,882	134,141	216,296
Total	14,155,150	59,308,732	13,771,266	63,516,144

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, 2020, filed with the SEC on February 12, 2020, 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 IA 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 to achieve Continuous Software Release Management, or CSRM. Our leading CSRM platform enables organizations to continuously deliver software updates across any system. Our 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. All of our subscription tiers are available 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. Due to ease of use, none of our subscriptions require the use of professional services. Revenue from SaaS subscription contributed 24% of our total revenue for the three and nine months ended September 30, 2021, compared to 22% and 21%, respectively, for the corresponding periods in 2020.

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 92% of our total revenue for the three and nine months ended September 30, 2021, compared to 87% and 86%, respectively, for the corresponding periods in 2020. Revenue from Enterprise Plus subscription represented approximately 34% and 32% of our total revenue for the three and nine months ended September 30, 2021, respectively, compared to approximately 19% and 17%, respectively, for the corresponding periods in 2020. The growth in revenue from our Enterprise Plus subscription, which was first launched in 2018 for self-managed deployments and during 2020 for SaaS deployment, demonstrates the increased demand for our end-to-end solutions for customers' entire CSRM workflows.

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 $402.4 million of cash, cash equivalents, and short-term investments as of September 30, 2021. We generated revenue of $53.7 million and $38.9 million for the three months ended September 30, 2021 and 2020, respectively, representing 38% growth. We generated revenue of $147.4 million and $108.1 million for the nine months ended September 30, 2021 and 2020, respectively, representing 36% growth. We incurred net loss of $20.5 million and $5.3 million for the three months ended September 30, 2021 and 2020, respectively, and $41.5 million and $5.7 million for the nine months ended September 30, 2021 and 2020, respectively. We generated operating cash flow of $10.2 million and $16.6 million during the nine months ended September 30, 2021 and 2020, respectively.

Acquisition of Vdoo Connected Trust Ltd.

On July 19, 2021, we acquired 100% of equity interest in Vdoo, a privately-held company in Israel, which provides a product security platform for automating all software security tasks throughout the entire product lifecycle. The acquisition accelerates our security technology expansion, aiming to deliver a holistic security solution as part of our Platform. The operating results for the three and nine months ended September 30, 2021 include the operating results of Vdoo from the date of acquisition.

COVID-19 Update

The COVID-19 pandemic has resulted in travel restrictions, prohibitions of non-essential activities, disruption and shutdown of certain businesses, and greater uncertainty in global financial markets. Such conditions have created disruption in global supply chains, increasing rates of unemployment, and adversely impacting many industries. While COVID-19 related restrictions have eased in many locations pursuant to Centers for Disease Control and Prevention guidelines and other governmental and local regulations, new variants of the coronavirus may result in increased restrictions in the future, which is likely to have an adverse impact on global economic and market conditions. 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 COVID-19 pandemic may impact our financial condition or results of operations remain uncertain.

We have experienced slowed growth during the COVID-19 pandemic. We may continue experiencing slowed growth and lower orders from our existing customers for upgrades within our platform. We have experienced and expect to continue to experience longer 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; government responses to the pandemic; the efficacy of COVID-19 vaccines; its impact 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 and other global events may also affect our future performance.

In response to the COVID-19 pandemic, we adopted several measures, including temporarily requiring our entire work force to work remotely and implementing travel restrictions for non-essential business. Since the second quarter of 2020, we intermittently and partially reopened our offices to the extent permitted by local government restrictions. As of October 1, 2021, we fully reopened all of our offices. The impact, if any, of these and any additional operational changes we may implement are uncertain. 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.

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 platform for CSRM.

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. In order for us to continue to expand usage within our existing customers we will need to maintain engineering-level customer support, and continue 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 September 30, 2021 and 2020, our net dollar retention rate was 129% and 136%, 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 September 30, 2021, 466 of our customers had ARR of $100,000 or more, increasing from 352 customers as of December 31, 2020. We had 14 customers with ARR of at least $1.0 million as of September 30, 2021, increasing from 10 customers as of December 31, 2020.

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 relied on our self-service and inbound sales model to attract new customers. Prospective customers can evaluate and adopt our products through our free trials, freemium offerings, and open source software options. The costs associated with providing these free trials, freemium offerings, 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:

	Nine Months Ended September 30,	
	2021	2020
	(in thousands)	
Net cash provided by operating activities	$ 10,241	$ 16,642
Less: purchases of property and equipment	(3,190)	(2,611)
Free cash flow	$ 7,051	$ 14,031
Net cash used in investing activities	$ (88,243)	$ (129,963)
Net cash provided by (used in) financing activities	$ (1,094)	$ 396,934

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 September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
	(in thousands)			
Revenue:				
Subscription—self-managed and SaaS	$ 49,248	$ 35,714	$ 135,898	$ 99,172
License—self-managed	4,455	3,172	11,549	8,966
Total subscription revenue	53,703	38,886	147,447	108,138
Cost of revenue:				
Subscription—self-managed and SaaS(1)(2)(3)	11,262	7,047	28,379	19,712
License—self-managed(2)	199	214	580	642
Total cost of revenue—subscription	11,461	7,261	28,959	20,354
Gross profit	42,242	31,625	118,488	87,784
Operating expenses:				
Research and development(1)(3)	23,142	10,381	53,666	29,452
Sales and marketing(1)(2)(3)	24,321	14,839	66,112	42,744
General and administrative(1)(3)	15,695	11,804	44,469	21,748
Total operating expenses	63,158	37,024	164,247	93,944
Operating loss	(20,916)	(5,399)	(45,759)	(6,160)
Interest and other income, net	20	384	726	1,522
Loss before income taxes	(20,896)	(5,015)	(45,033)	(4,638)
Income tax expense (benefit)	(432)	250	(3,525)	1,053
Net loss	$ (20,464)	$ (5,265)	$ (41,508)	$ (5,691)

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

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
	(in thousands)			
Cost of revenue: subscription–self-managed and SaaS	$ 1,180	$ 327	$ 2,766	$ 666
Research and development	4,547	1,086	9,056	2,782
Sales and marketing	4,307	1,263	10,552	3,033
General and administrative	6,823	6,984	20,337	7,918
Total share-based compensation expense	$ 16,857	$ 9,660	$ 42,711	$ 14,399

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

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
	(in thousands)			
Cost of revenue: subscription–self-managed and SaaS	$ 1,773	$ —	$ 1,773	$ —
Cost of revenue: license—self-managed	199	214	580	642
Sales and marketing	327	183	691	547
Total amortization expense of acquired intangible assets	$ 2,299	$ 397	$ 3,044	$ 1,189

(3) Includes acquisition-related costs as follows:

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
	(in thousands)			
Cost of revenue: subscription–self-managed and SaaS	$ 3	$ —	$ 3	$ —
Research and development	2,305	352	3,007	1,051
Sales and marketing	279	114	279	342
General and administrative	511	—	872	—
Total acquisition-related costs	$ 3,098	$ 466	$ 4,161	$ 1,393

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Revenue:				
Subscription—self-managed and SaaS	92 %	92 %	92 %	92 %
License—self-managed	8	8	8	8
Total subscription revenue	100	100	100	100
Cost of revenue:				
Subscription—self-managed and SaaS	21	18	19	18
License—self-managed	—	1	1	1
Total cost of revenue—subscription	21	19	20	19
Gross profit	79	81	80	81
Operating expenses:				
Research and development	43	27	36	27
Sales and marketing	46	38	45	40
General and administrative	29	30	30	20
Total operating expenses	118	95	111	87
Operating loss	(39)	(14)	(31)	(6)
Interest and other income, net	—	1	—	2
Loss before income taxes	(39)	(13)	(31)	(4)
Income tax expense (benefit)	(1)	1	(3)	1
Net loss	(38)%	(14)%	(28)%	(5)%

Comparison of the Three Months Ended September 30, 2021 and 2020

Revenue

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	$ Change	% Change
	(in thousands, except for percentages)			
Subscription—self-managed and SaaS	$ 49,248	$ 35,714	$ 13,534	38 %
License—self-managed	4,455	3,172	1,283	40
Total subscription revenue	$ 53,703	$ 38,886	$ 14,817	38 %

Total subscription revenue increased $14.8 million, or 38%, for the three months ended September 30, 2021 compared to the three months ended September 30, 2020. Approximately $12.0 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 September 30, 2021	Three Months Ended September 30, 2020	$ Change	% Change
	(in thousands, except for percentages)			
Subscription—self-managed and SaaS	$ 11,262	$ 7,047	$ 4,215	60 %
License—self-managed	199	214	(15)	(7)
Total cost of revenue—subscription	$ 11,461	$ 7,261	$ 4,200	58 %
Gross margin	79 %	81 %		

Total cost of revenue increased $4.2 million, or 58%, for the three months ended September 30, 2021 compared to the three months ended September 30, 2020. The increase was primarily attributable to an increase of $1.8 million in amortization of intangibles mainly as a result of our acquisition of Vdoo in the third quarter of 2021, an increase of $1.4 million in personnel-related expenses mainly as a result of increased headcount, and an increase of $0.9 million in share-based compensation expense as discussed in the section titled "*Share-Based Compensation Expense*" below.

Gross margin was 79% for the three months ended September 31, 2021, compared to 81% for the three months ended September 30, 2020. The decrease reflects higher amortization expense as discussed above.

Operating Expenses

Research and Development

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	$ Change	% Change
	(in thousands, except for percentages)			
Research and development	$ 23,142	$ 10,381	$ 12,761	123 %

Research and development expense increased $12.8 million, or 123%, for the three months ended September 30, 2021 compared to the three months ended September 30, 2020. The increase was primarily attributable to an increase of $6.1 million in personnel-related expenses mainly as a result of increased headcount, including headcount from our acquisitions, an increase of $3.5 million in share-based compensation expense as discussed in the section titled "*Share-Based Compensation Expense*" below, and an increase of $2.0 million in compensation expense associated with holdback and retention arrangements as part of our acquisitions.

Sales and Marketing

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	$ Change	% Change
	(in thousands, except for percentages)			
Sales and marketing	$ 24,321	$ 14,839	$ 9,482	64 %

Sales and marketing expense increased $9.5 million, or 64%, for the three months ended September 30, 2021 compared to the three months ended September 30, 2020. The increase was primarily attributable to an increase of $3.5 million in personnel-related expenses mainly as a result of increased headcount, including headcount from our acquisitions, an increase of $3.0 million in share-based compensation expense as discussed in the section titled "*Share-Based Compensation Expense*" below, and an increase of $1.0 million in marketing program costs.

General and Administrative

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	$ Change	% Change
	(in thousands, except for percentages)			
General and administrative	$ 15,695	$ 11,804	$ 3,891	33 %

General and administrative expense increased $3.9 million, or 33%, for the three months ended September 30, 2021 compared to the three months ended September 30, 2020. The increase was primarily attributable to an increase of $1.4 million in personnel-related expenses mainly as a result of increased headcount, an increase of $1.1 million in professional fees for legal, accounting, and other consulting services, and an increase of $0.8 million in officer and director insurance premium due to the insurance policy purchased in September 2020.

Share-based Compensation Expense

	Three Months Ended September 30,			
	2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Cost of revenue: subscription–self-managed and SaaS	$ 1,180	$ 327	$ 853	261 %
Research and development	4,547	1,086	3,461	319
Sales and marketing	4,307	1,263	3,044	241
General and administrative	6,823	6,984	(161)	(2)
Total share-based compensation expense	$ 16,857	$ 9,660	$ 7,197	75 %

Share-based compensation expenses increased $7.2 million, or 75%, for the three months ended September 30, 2021 compared to the three months ended September 30, 2020, attributable to grants to new and existing employees. As a result of the Vdoo acquisition, we recognized share-based compensation expense of $1.8 million during the three months ended September 30, 2021, primarily in research and development. Share-based compensation expense in general and administrative decreased due to a $2.0 million decrease associated with the RSU granted to CEO in August 2020 which was partially offset by $1.7 million attributable to grants to new and existing employees.

Interest and Other Income, Net

	Three Months Ended September 30,			
	2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Interest and other income, net	$ 20	$ 384	$ (364)	(95)%

Interest and other income, net decreased $0.4 million, or 95%, for the three months ended September 30, 2021 compared to the three months ended September 30, 2020, primarily due to lower interest income on deposits and marketable investments as a result of lower interest rates during the period and higher currency translation loss.

Income Tax Expense (Benefit)

	Three Months Ended September 30,			
	2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Income tax expense (benefit)	$ (432)	$ 250	$ (682)	(273)%
Effective income tax rate	2 %	(5)%		

We recorded income tax benefit of $0.4 million and income tax expense of $0.3 million for the three months ended September 30, 2021 and 2020, respectively. This change was primarily due to $0.4 million income tax benefit as a result of partial release of a valuation allowance upon recording a deferred tax liability in connection with the acquisitions. Our effective tax rate was 2% and (5)% for the three months ended September 30, 2021 and 2020, respectively.

Comparison of the Nine Months Ended September 30, 2021 and 2020

Revenue

	Nine Months Ended September 30,			
	2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Subscription—self-managed and SaaS	$ 135,898	$ 99,172	$ 36,726	37 %
License—self-managed	11,549	8,966	2,583	29
Total subscription revenue	$ 147,447	$ 108,138	$ 39,309	36 %

Total subscription revenue increased $39.3 million, or 36%, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. Approximately $33.5 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

	Nine Months Ended September 30,			
	2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Subscription—self-managed and SaaS	$ 28,379	$ 19,712	$ 8,667	44 %
License—self-managed	580	642	(62)	(10)
Total cost of revenue—subscription	$ 28,959	$ 20,354	$ 8,605	42 %
Gross margin	80 %	81 %		

Total cost of revenue increased $8.6 million, or 42%, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase was primarily attributable to an increase of $3.7 million in personnel-related expenses mainly as a result of increased headcount, an increase of $2.1 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 amortization of acquired intangibles.

Gross margin was 80% for the nine months ended September 31, 2021, compared to 81% for the nine months ended September 30, 2020. The decrease reflects higher amortization expense as discussed above.

Operating Expenses

Research and Development

	Nine Months Ended September 30,			
	2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Research and development	$ 53,666	$ 29,452	$ 24,214	82 %

Research and development expense increased $24.2 million, or 82%, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase was primarily attributable to an increase of $13.1 million in personnel-related expenses mainly as a result of increased headcount, including headcount from our acquisitions, an increase of $6.3 million in share-based compensation expense as discussed in the section titled "*Share-Based Compensation Expense*" below, and an increase of $2.0 million in compensation expense associated with holdback and retention arrangements as part of our acquisitions.

Sales and Marketing

	Nine Months Ended September 30, 2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Sales and marketing	$ 66,112	$ 42,744	$ 23,368	55 %

Sales and marketing expense increased $23.4 million, or 55%, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase was primarily attributable to an increase of $9.0 million in personnel-related expenses mainly as a result of increased headcount, including headcount from our acquisitions, an increase of $7.5 million in share-based compensation expense as discussed in the section titled "*Share-Based Compensation Expense*" below, an increase of $2.6 million in hosting costs primarily related to our freemium offerings and trials, and an increase of $2.0 million in marketing program costs.

General and Administrative

	Nine Months Ended September 30, 2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
General and administrative	$ 44,469	$ 21,748	$ 22,721	104 %

General and administrative expense increased $22.7 million, or 104%, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase was primarily attributable to an increase of $12.4 million in share-based compensation expense as discussed in the section titled "*Share-Based Compensation Expense*" below, an increase of $3.2 million in personnel-related expenses mainly as a result of increased headcount, an increase of $3.0 million in professional fees for legal, accounting, and other consulting services, and an increase of $2.8 million in officer and director insurance premium.

Share-based Compensation Expense

	Nine Months Ended September 30, 2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Cost of revenue: subscription–self-managed and SaaS	$ 2,766	$ 666	$ 2,100	315 %
Research and development	9,056	2,782	6,274	226
Sales and marketing	10,552	3,033	7,519	248
General and administrative	20,337	7,918	12,419	157
Total share-based compensation expense	$ 42,711	$ 14,399	$ 28,312	197 %

Share-based compensation expenses increased $28.3 million, or 197%, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, due to an $8.3 million share-based compensation expense increase related to RSUs granted to CEO in August 2020 and a $20.0 million share-based compensation expense increase related to grants to new and existing employees including the Vdoo acquisition.

Interest and Other Income, Net

	Nine Months Ended September 30, 2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Interest and other income, net	$ 726	$ 1,522	$ (796)	(52)%

Interest and other income, net decreased $0.8 million, or 52%, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily due to lower interest income on deposits and marketable investments as a result of lower interest rates during the period.

Income Tax Expense (Benefit)

	Nine Months Ended September 30,			
	2021	2020	$ Change	% Change
	(in thousands, except for percentages)			
Income tax expense (benefit)	$ (3,525)	$ 1,053	$ (4,578)	(435)%
Effective income tax rate	8%	(23)%		

We recorded income tax benefit of $3.5 million and income tax expense of $1.1 million for the nine months ended September 30, 2021 and 2020, respectively. This change was primarily due to $3.5 million income tax benefit in the U.S. Our effective tax rate was 8% and (23)% for the nine months ended September 30, 2021 and 2020, respectively.

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 various business and asset acquisitions.

As of September 30, 2021, our principal sources of liquidity were cash, cash equivalents, and short-term investments of $402.4 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. 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, including our acquisitions.

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:

	Nine Months Ended September 30,	
	2021	2020
	(in thousands)	
Net cash provided by operating activities	$ 10,241	$ 16,642
Net cash used in investing activities	$ (88,243)	$ (129,963)
Net cash provided by (used in) financing activities	$ (1,094)	$ 396,934

Operating Activities

Net cash provided by operating activities of $10.2 million for nine months ended September 30, 2021 was primarily related to our net loss of $41.5 million adjusted for non-cash charges of $56.6 million, including share-based compensation expense of $42.7 million, and net cash outflows of $4.9 million from changes in our operating assets and liabilities, which was primarily due to an increase of prepaid expense and other assets of $18.7 million and an increase of accounts receivable of $6.2 million, partially offset by an increase of $22.8 million in deferred revenue. The increases in deferred revenue and accounts receivable were driven by higher sales. $17.8 million of the increase in prepaid expense and other assets were due to prepayments pursuant to holdback agreements associated with our acquisitions.

Net cash provided by operating activities of $16.6 million for the nine months ended September 30, 2020 was primarily related to our net loss of $5.7 million, adjusted for non-cash charges of $18.1 million and net cash inflows of $4.2 million provided by changes in our operating assets and liabilities. Non-cash charges consisted primarily of share-based compensation of $14.4 million. The main drivers of net cash inflows derived from the changes in operating assets and liabilities were related to an increase in accounts payable and accrued expenses and other liabilities of $6.3 million, and an increase in deferred revenue of $4.0 million due to increases in sales, partially offset by an increase in prepaid expenses and other assets of $4.3 million.

Investing Activities

Net cash used in investing activities of $88.2 million for the nine months ended September 30, 2021 was primarily due to payments for acquisitions of $195.8 million, net of cash acquired and capital expenditure of $3.2 million, partially offset by net proceeds from sales and maturities of short-term investments of $111.3 million.

Net cash used in investing activities of $130.0 million for the nine months ended September 30, 2020 was the result of net purchases of short-term investments of $127.4 million and capital expenditures of $2.6 million.

Financing Activities

Net cash used in financing activities of $1.1 million for the nine months ended September 30, 2021 was related to net payments of $8.9 million to tax authorities associated with our employee equity transactions, partially offset by proceeds from exercise of share options of $4.8 million and proceeds from employee share purchases under our ESPP of $3.1 million.

Net cash provided by financing activities of $396.9 million for the nine months ended September 30, 2020 was related to net proceeds from our IPO of $395.2 million after deducting underwriting discounts and commissions and other issuance costs, and proceeds from exercise of share options of $1.7 million.

Commitments and Contractual Obligations

There were no material changes to our commitments and contractual obligations during the nine months ended September 30, 2021 from the commitments and contractual obligations disclosed in our Annual Report. Refer to Note 10 and Note 11 to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q for further details.

Off-Balance Sheet Arrangements

Through September 30, 2021, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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, including the anticipated impact of COVID-19. 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. Other than the addition of "*Business Combinations*" below, there have been no significant changes to these policies and estimates during the nine months ended September 30, 2021.

Business Combinations

We allocate the purchase price of acquired businesses to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. Any residual purchase price is recorded as goodwill. We make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates, or actual results.

Recent Accounting Pronouncements

See the section titled "*Summary of Significant Accounting Policies*" in Note 2 of the notes to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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 and nine months ended September 30, 2021.

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 September 30, 2021, 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 September 30, 2021.

Interest Rate Risk

As of September 30, 2021, we had cash and cash equivalents of $84.6 million, and short-term investments of $317.8 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 10% change in interest rates during any of the periods presented would not have had a material impact on our condensed consolidated financial statements for the three and nine months ended September 30, 2021.

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

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.

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

We have acquired, and may acquire, other businesses which could require significant management attention, disrupt our business, dilute shareholder value, and adversely affect our results of operations.

As part of our business strategy, we may acquire or make investments in complementary companies, products or technologies. We have in the past acquired, and expect in the future to acquire, businesses that we believe will complement or augment our existing business. For example, in July 2021 we acquired 100% of the shares of Vdoo Connected Trust Ltd. (“Vdoo”), a privately held security company, and in August 2021 we acquired Upswift, a cloud-based platform company and creator of connected device management software for developers. The identification of suitable acquisition candidates is difficult, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete future acquisitions, we may not ultimately strengthen our competitive position or achieve our goals and business strategy, we may be subject to claims or liabilities assumed from an acquired company, product, or technology, and any acquisitions we complete could be viewed negatively by our customers, investors, and securities analysts. In addition, if we are unsuccessful at integrating future acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and results of operations of the combined company could be adversely affected. Any integration process may require significant time and resources, which may disrupt our ongoing business and divert management’s attention, and we may not be able to manage the integration process successfully.

We completed acquisitions of two complementary businesses in the third quarter of this year, with the acquisition of Vdoo being our most significant acquisition to date. Based on our limited experience in acquiring other businesses and associated technology there can be no assurance that we will be able to successfully integrate the acquired personnel, operations and technologies of either company, or effectively manage the combined business. Our efforts to integrate Vdoo’s and Upswift’s businesses into ours may divert the attention of our management team and cause us to incur various costs that we have not yet identified. If Vdoo’s security platform and technology fail to meet our expectations, or we fail to execute on the anticipated integrated technology platform with Upswift, our operating results, business and financial condition may suffer.

We may have to pay cash, incur debt, or issue equity or equity-linked securities to pay for any future acquisitions, each of which could adversely affect our financial condition or the market price of our ordinary shares. The sale of equity or issuance of equity-linked debt to finance any future acquisitions could result in dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations. The occurrence of any of these risks could harm our business, results of operations, and financial condition.

Our business is subject to a wide range of labor and employment laws and regulations, many of which are evolving, and failure to comply with such laws and regulations could harm our business, financial condition, and results of operations.

We endeavor to comply with all applicable employment laws. However, the scope and interpretation of these laws are often uncertain and may be conflicting, including varying standards and interpretations between state and federal law, between individual states, and even at the city and municipality level. As a result, their application in practice may change or develop over time through judicial decisions or as new guidance or interpretations are provided by regulatory and governing bodies, such as federal, state, and local administrative agencies. For example, California law requires employers to pay employees a minimum salary of at least twice the applicable state minimum wage, and to meet other duties-related requirements, in order to classify employees as exempt from applicable overtime pay and other rules. Minimum salary and other duties requirements impact the way we classify certain employees in the United States as exempt or non-exempt from overtime requirements. Any such classification decisions and adherence to applicable labor laws may increase our wage payment obligations and overall salary structure, and as such these requirements may have a material effect on our business, financial condition and results of operations. We are analyzing areas of U.S. employment law, specifically as it pertains to the classification of certain U.S. employment positions as exempt versus non-exempt. Any non-compliance with laws and regulations regarding employee classification could subject the company to federal and state claims and civil penalties and, thereby, could also have a material adverse effect on our business, financial condition, and results of operation.

Risks Related to Privacy, Data Protection and Cyber security

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, and use 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, 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, use, retention, security or disclosure 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 or disclosure 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 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.

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, and the Colorado Privacy Act, enacted June 2021. 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, or 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 SCCs. The "Schrems II" decision issued by the Court of Justice of the European Union, or 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. Although we believe we continue to satisfy regulatory requirements through our use of SCCs, these latest 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.

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. 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 Standard Contractual Clauses). 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. We are also monitoring recent or pending legislation in India, China 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, or 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, our platform and products support customers' software, which may involve the processing of large amounts of personal data and sensitive and proprietary information. Recent 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, and the incident affecting Kaseya VSA – 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 proprietary and confidential information, as well as the personal data and proprietary and confidential information that we otherwise obtain, including from our customers. We also engage third-party vendors and service providers to store and otherwise process some of our and our customers' data, including sensitive 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 access to, misuse, disclosure, loss or destruction of our and our customers' data, including sensitive and personal information.

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. From time to time, we do identify product vulnerabilities, including through our bug bounty program. We have policies and procedures in place to swiftly characterize the potential impact of such vulnerabilities, develop appropriate patching and/or fix mitigation for our customers, and publish such information on our website and/or through release notes. We also maintain policies and procedures and utilize certain technology related to vulnerability scanning and management of our internal corporate systems and networks, which are timely communicated to leadership based on risk and in accordance with these policies and procedures.

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 third-party providers' systems and networks have not been breached or that they do not contain exploitable 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 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.

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, defects or bugs, malfeasance, or otherwise, which results in someone obtaining unauthorized access to our proprietary and confidential information, personal information or other private or proprietary data, or any such information or data of our customers, could result in the loss or corruption of any such information or data, or unauthorized access to or acquisition of, such information or data, 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 social distancing measures restricting the ability of our employees to work at our offices are in place to combat the COVID-19 pandemic because we have less capability to implement, monitor and enforce our information security and data protection policies. 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. 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.

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 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 win 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 third-party provider's incident and any future data security incident or breach. 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.

We engage third-party vendors and service providers to store and otherwise process some of our and our customers' data, including sensitive 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 access to, misuse, disclosure, loss or destruction of our and our customers' data, including sensitive and personal information. There have been and may continue to be significant supply chain attacks, and we cannot guarantee that our or our third-party providers' systems and networks have not been breached or that they do not contain exploitable 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.

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 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 United States 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 third-party 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

As we conduct operations in China, risks associated with economic, political and social events in China could negatively affect our business and results of operations.

We are currently expanding operations in China and may continue to increase our presence in China. Our operations in China are subject to a number of risks relating to China's economic and political systems, including:

- A government-controlled foreign exchange rate and limitations on the convertibility of the Chinese Renminbi;
- Uncertainty regarding the validity, enforceability and scope of protection for intellectual property rights and the practical difficulties of enforcing such rights;

• Ability to secure our business proprietary information located in China from unauthorized acquisition;
• Extensive government regulation;
• Changing governmental policies relating to tax benefits available to foreign-owned businesses;
• A relatively uncertain legal system; and
• Instability related to continued economic, political and social reform.

Any actions and policies adopted by the government of the People's Republic of China, particularly with regard to intellectual property rights, any slowdown in China's economy, or increased restrictions related to the transfer of data pursuant to the Chinese Cyber Security Law could have an adverse effect on our business, results of operations and financial condition.

Further, at various times during recent years, the United States and China have had disagreements over political and economic issues. Controversies may arise in the future between these two countries. Any political or trade controversy between the United States and China could adversely affect the U.S. and European economies and materially and adversely affect the market price of our ordinary shares, our business, financial position and financial performance.

General Risk Factors

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

For so long as we remain an "emerging growth company" as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We may take advantage of these exemptions until we are no longer an emerging growth company. We cannot predict if investors will find our ordinary shares less attractive because we may rely on these exemptions. If some investors find our ordinary shares less attractive as a result, there may be a less active trading market for our ordinary shares and our share price may be more volatile. We will lose our "emerging growth company" status on the last day of our fiscal year ending December 31, 2021.

The global coronavirus outbreak could continue to harm our business and results of operations.

In December 2019, a novel coronavirus disease ("COVID-19") was reported in China, in January 2020, the World Health Organization ("WHO") declared it a Public Health Emergency of International Concern, and in March 2020 the WHO declared it a pandemic. This contagious disease outbreak spread across the globe and continues to impact worldwide economic activity and financial markets. In March 2020 we took precautionary measures intended to minimize the risk of the virus to our employees, our customers, our partners and the communities in which we operate, which included the temporary closure of all of our offices, and remote working capabilities for our entire work force. Since the second quarter of 2020, we intermittently reopened our offices in Israel. As of October 1, 2021, we fully reopened all of our offices. The impact, if any, of these and any additional operational changes we may implement are uncertain. 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. While COVID-19 related travel restrictions eased in many locations for a period of time pursuant to Centers for Disease Control and Prevention guidelines and other governmental and local regulations, some of those restrictions have been reinstated due to the increase in COVID-19 cases caused by the Delta variant. Due to the ongoing and uncertain nature of the pandemic caused in part by the Delta variant, 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 the Delta variant and any 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 experience slowed growth and lower 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 the Delta variant and any subsequent variants of the coronavirus; government responses to the pandemic; the efficacy of COVID-19 vaccines; its impact 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 and other global events 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 COVID-19 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 August 2021, pursuant to acquisition agreement related to our previous acquisition of a privately held company, we issued an aggregate of 49,823 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.

SIGNATURES

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

Date:	November 5, 2021	By:		/s/ Shlomi Ben Haim
			Name:	Shlomi Ben Haim
			Title:	Chief Executive Officer
				(*Principal Executive Officer*)
Date:	November 5, 2021	By:		/s/ Jacob Shulman
			Name:	Jacob Shulman
			Title:	Chief Financial Officer
				(*Principal Financial Officer & Principal Accounting Officer*)

Exhibit 31.1

**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.

JFROG LTD.

Date: November 5, 2021

/s/ Shlomi Ben Haim

Shlomi Ben Haim
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**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.

JFROG LTD.

Date: November 5, 2021

/s/ Jacob Shulman

Jacob Shulman
Chief Financial Officer
(Principal Financial Officer)

Exhibit 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

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 September 30, 2021 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.

JFROG LTD.

Date: November 5, 2021

/s/ Shlomi Ben Haim

Shlomi Ben Haim

Chief Executive Officer

(Principal Executive Officer)

Exhibit 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

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 September 30, 2021 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.

JFROG LTD.

Date: November 5, 2021

/s/ Jacob Shulman

Jacob Shulman

Chief Financial Officer

(Principal Financial Officer)