

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2020

OR

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

OR

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

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 001-38866



**TUFIN SOFTWARE TECHNOLOGIES LTD.**

(Exact name of Registrant as specified in its charter)

ISRAEL

(Jurisdiction of incorporation or organization)

5 HaShalom Road, ToHa Tower

Tel Aviv 6789205, Israel

(Address of principal executive offices)

Yuval Fessler

General Counsel

Telephone: +972 (3) 612-8118

Tufin Software Technologies Ltd.

5 HaShalom Road, ToHa Tower

Tel Aviv 6789205, Israel

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be 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, par value NIS 0.015 per share	TUFN	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2020, the registrant had outstanding 35,972,470 ordinary shares, par value NIS 0.015 per share.

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, 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 has filed a report on the attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark which basis for accounting the registrant has used to prepare the financing statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## INTRODUCTION

In this annual report, the terms “Tufin,” “we,” “us,” “our” and “the company” refer to Tufin Software Technologies Ltd. and its subsidiaries.

Throughout this annual report, we refer to various trademarks, service marks and trade names that we use in our business. The “Tufin” design logo is the property of Tufin Software Technologies Ltd. Tufin<sup>®</sup> is our registered trademark in the United States. We have several other trademarks, service marks and pending applications relating to our products. In particular, although we have omitted the “<sup>®</sup>” and “<sup>™</sup>” trademark designations in this annual report from each reference to Unified Security Policy, Tufin Orchestration Suite, SecureChange, SecureTrack, SecureApp and Tufin SecureCloud, all rights to such trademarks are nevertheless reserved. Other trademarks and service marks appearing in this annual report are the property of their respective holders.

References in this annual report to the Global 2000 are to the world’s 2,000 largest public companies as published by Forbes Media LLC according to its Forbes Global 2000: The World's Largest Public Companies, June 2018.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS SUMMARY

We make forward-looking statements in this annual report that are subject to risks and uncertainties. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. These forward-looking statements include information about possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. In some cases, you can identify forward-looking statements by terminology such as “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “potential,” “will,” “likely,” “continue” or the negative of these terms or other similar expressions. The statements we make regarding the following matters are forward-looking by their nature, and the risks and uncertainties they involve include, but are not limited to, the items in the following list, which summarizes some of the principal risks relating to the Company and its business:

- the impact of the global pandemic caused by the novel coronavirus (“COVID-19”) on the budgets of our customers and on economic conditions generally, as well as the length, severity of and pace of recovery following the pandemic;
- political conditions and economic downturns, particularly in areas where we operate;
- compliance, managerial and regulatory risks associated with international sales and operations;
- our expectation that policy-centric, automated solutions will garner a growing share of enterprise security spend;
- our expectations for growth in certain key verticals and geographic regions and our intention to expand international operations;
- our ability to maintain effective internal controls over financial reporting;
- our expectations concerning seasonality and the predictability of our sales cycle;
- our expectation regarding customer relationships developed by our hybrid sales model, including our ability to acquire new customers and maintain a high level of customer retention;
- our ability to compete and increase positive market awareness of our brand, particularly with respect to markets for security policy management;
- our ability to align our future and past performance by continuing to generate sufficient revenues;
- the successful management of our business model, as well as current and future growth, particularly with respect to our plans to transition to a subscription-based product model over time;
- the compatibility of our product and service offerings with customers’ existing technologies and applications;
- our plans to deploy additional cloud-based subscription products over time, to enable more customers to consume our products beyond our existing on-premise solutions;
- our reliance on certain products and customers to generate revenue;
- our intention to invest further in the Tufin Orchestration Suite to extend its functionality and features;

- our expectations regarding sales of our new product, SecureCloud;
- our expectations regarding sales driven by channel partners and our technology alliance partners through joint selling efforts and go-to-market strategies;
- our dependence on a single third-party manufacturer to fulfill certain software license orders;
- the effect of cybersecurity threats or attacks on our technologies, products and services;
- the effect of any real or perceived shortcomings, defects or vulnerabilities in our solutions;
- compliance laws, regulations and requirements in the jurisdictions where we operate, including with respect to with data protection and privacy and export and import control requirements;
- our expectations regarding the outcome of certain litigation relating to our initial and secondary public offerings;
- our ability to adequately protect and defend our intellectual property and other proprietary rights;
- our ability to effectively manage invest in, grow and retain our sales force, research and development capabilities, marketing team and other key personnel;
- the volatility of our share price and active trading market for our shares;
- political, economic, governmental and tax consequences associated with our incorporation and location in Israel; and
- our expectations regarding our tax classifications.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, levels of activity, performance or achievements to differ materially from the results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the risks provided under “Risk Factors” in this annual report.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this annual report, to conform these statements to actual results or to changes in our expectations.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

The following tables set forth our selected consolidated financial data. You should read the following selected consolidated financial data in conjunction with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and related notes included elsewhere in this annual report. Historical results are not necessarily indicative of the results that may be expected in the future. Our financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles, or U.S. GAAP.

The selected consolidated statements of operations data for each of the years in the three-year period ended December 31, 2020 and the consolidated balance sheet data as of December 31, 2019 and 2020 are derived from our audited consolidated financial statements appearing elsewhere in this annual report. The below selected consolidated balance sheet data as of December 31, 2017 and 2018, has been derived from our previously reported audited consolidated financial statements, which are not included in this annual report.

	<b>Year ended December 31,</b>			
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<b>(in thousands except share and per share data)</b>			
<b>Consolidated Statements of Operations:</b>				
Revenues:				
Product	\$ 30,855	\$ 42,554	\$ 47,365	\$ 38,690
Maintenance and professional services	33,685	42,427	55,905	62,144
Total revenues	<u>64,540</u>	<u>84,981</u>	<u>103,270</u>	<u>100,834</u>
Cost of revenues:				
Product	1,702	2,324	2,716	2,940
Maintenance and professional services	7,778	11,112	17,141	17,307
Total cost of revenues (1)	<u>9,480</u>	<u>13,436</u>	<u>19,857</u>	<u>20,247</u>
Gross profit	55,060	71,545	83,413	80,587
Operating expenses:				
Research and development (1)	17,672	21,363	31,571	34,978
Sales and marketing (1)	35,042	46,092	63,981	59,484
General and administrative (1)	4,608	6,022	14,884	20,050
Total operating expenses	<u>57,322</u>	<u>73,477</u>	<u>110,436</u>	<u>114,512</u>
Operating loss	<u>\$ (2,262)</u>	<u>\$ (1,932)</u>	<u>\$ (27,023)</u>	<u>\$ (33,925)</u>
Financial income (loss), net	267	(1,047)	(85)	114
Loss before taxes on income	<u>\$ (1,995)</u>	<u>\$ (2,979)</u>	<u>\$ (27,108)</u>	<u>\$ (33,811)</u>
Taxes on income	(797)	(1,283)	(1,011)	(1,595)
Net loss	<u>(2,792)</u>	<u>(4,262)</u>	<u>(28,119)</u>	<u>(35,406)</u>
Basic and diluted net loss per ordinary share (2)	<u>\$ (0.35)</u>	<u>\$ (0.53)</u>	<u>\$ (1.04)</u>	<u>\$ (0.99)</u>
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share (2)	<u>7,872,545</u>	<u>8,045,647</u>	<u>27,088,274</u>	<u>35,674,258</u>

	December 31,			
	2017	2018	2019	2020
	<i>(in thousands)</i>			
<b>Consolidated Balance Sheet Data (3):</b>				
Cash and cash equivalents	\$ 14,700	\$ 15,248	\$ 118,661	\$ 58,449
Working capital, excluding deferred revenue (4)	15,247	17,781	115,963	75,973
Deferred revenue, current and non-current	23,957	31,464	35,563	37,755
Total assets	35,126	47,133	176,732	160,351
Redeemable convertible preferred shares	26,699	26,699	—	—
Total shareholders' equity (deficit)	(29,028)	(29,946)	94,322	75,179

	December 31,			
	2017	2018	2019	2020
	<i>(in thousands)</i>			
<b>Supplemental Financial Data:</b>				
Non-GAAP gross profit (5)	\$ 55,392	\$ 72,179	\$ 84,927	\$ 82,611
Non-GAAP operating income (loss) (5)	\$ (152)	\$ 1,249	\$ (15,234)	\$ (18,452)
Non-GAAP net loss (5)	\$ (682)	\$ (1,081)	\$ (17,054)	\$ (20,634)

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

	Year ended December 31,			
	2017	2018	2019	2020
	<i>(in thousands)</i>			
<b>Share-based Compensation Expense:</b>				
Cost of revenues	\$ 332	\$ 634	\$ 1,514	\$ 2,024
Research and development	660	731	2,370	4,437
Sales and marketing	765	1,458	4,849	4,635
General and administrative	353	358	2,194	3,929
Total share-based compensation expenses	<u>\$ 2,110</u>	<u>\$ 3,181</u>	<u>\$ 10,927</u>	<u>\$ 15,025</u>

- (2) Basic and diluted net loss per ordinary share is computed based on the weighted average number of ordinary shares outstanding during each period. For additional information, see Note 2 to our consolidated financial statements included elsewhere in this annual report.
- (3) We adopted ASC 842 - "Leases" on January 1, 2019, and recorded right-of-use assets and lease liabilities, which are reflected on our balance sheet as of December 31, 2019 and 2020. As permitted, comparative figures were not adjusted. For additional information, see our consolidated financial statements included elsewhere in this annual report.
- (4) We define working capital as total current assets minus total current liabilities.
- (5) Non-GAAP gross profit, non-GAAP operating income (loss) and non-GAAP net loss are non-GAAP financial measures. We define non-GAAP gross profit as gross profit excluding share-based compensation expense. We define non-GAAP operating income (loss) as operating income (loss) excluding share-based compensation expense, shelf registration costs, one-time expenses associated with the reorganization of one of our subsidiaries and secondary offering costs. We define non-GAAP net loss as net loss excluding share-based compensation expense, shelf registration costs, one-time expenses associated with the reorganization of one of our subsidiaries, secondary offering costs and the tax effect of these non-GAAP adjustments. Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company's non-cash expense, we believe that providing non-GAAP financial measures that exclude non-cash share-based compensation expense allow for more meaningful comparisons between our operating results from period to period. In addition, we believe that providing non-GAAP financial measures that exclude shelf registration costs, one-time expenses associated with the reorganization of one of our subsidiaries and secondary offering costs allows for more meaningful comparisons between our operating results from period to period since these non-recurring costs are not representative or indicative of our ongoing operations. We also believe that the tax effects related to the non-GAAP adjustments set forth above do not reflect the performance of our core business and would impact period-to-period comparability.

These non-GAAP financial measures are an important tool for financial and operational decision-making and for evaluating our operating results over different periods. The presentation of these non-GAAP financial measures is not meant to be considered in isolation or as a substitute for comparable GAAP financial measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

The following tables reconcile gross profit, operating loss and net loss, the most directly comparable U.S. GAAP measures, to non-GAAP gross profit, non-GAAP operating income (loss) and non-GAAP net loss for the periods presented:

	Year ended December 31,			
	2017	2018	2019	2020
	<i>(in thousands)</i>			
<b>Reconciliation of Gross Profit to Non-GAAP Gross Profit:</b>				
Gross profit	\$ 55,060	\$ 71,545	\$ 83,413	\$ 80,587
Add:				
Share-based compensation expense	\$ 332	\$ 634	\$ 1,514	\$ 2,024
Non-GAAP gross profit	\$ 55,392	\$ 72,179	\$ 84,927	\$ 82,611
	Year ended December 31,			
	2017	2018	2019	2020
	<i>(in thousands)</i>			
<b>Reconciliation of Operating Loss to Non-GAAP Operating Loss:</b>				
Operating loss	\$ (2,262)	\$ (1,932)	\$ (27,023)	\$ (33,925)
Add:				
Share-based compensation expense	\$ 2,110	\$ 3,181	\$ 10,927	\$ 15,025
Shelf registration costs				126
One-time reorganization charges				322
Secondary offering costs	—	—	862	—
Non-GAAP operating income (loss)	\$ (152)	\$ 1,249	\$ (15,234)	\$ (18,452)



	Year ended December 31,			
	2017	2018	2019	2020
	<i>(in thousands)</i>			
<b>Reconciliation of Net Loss to Non-GAAP Net Loss:</b>				
Net loss	\$ (2,792)	\$ (4,262)	\$ (28,119)	\$ (35,406)
Add:				
Share-based compensation expense	\$ 2,110	\$ 3,181	\$ 10,927	\$ 15,025
Shelf registration costs				126
One-time reorganization charges				322
Secondary offering costs	—	—	862	—
Taxes on income related to non-GAAP adjustments	—	—	(724)	(701)
Non-GAAP net loss	\$ (682)	\$ (1,081)	\$ (17,054)	\$ (20,634)

Other companies, including companies in our industry, may calculate non-GAAP gross profit, non-GAAP operating income (loss) and non-GAAP loss differently or not at all, which reduces their usefulness as a comparative measure. You should consider non-GAAP gross profit, operating income (loss) and non-GAAP net loss along with other financial performance measures and our financial results presented in accordance with U.S. GAAP.

#### **B. Capitalization and Indebtedness**

Not applicable.

#### **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

#### **D. Risk Factors**

*Our business faces significant risks. You should carefully consider all of the information set forth in this annual report and in our other filings with the U.S. Securities and Exchange Commission, or the SEC, including the following risk factors which we face and which are faced by our industry. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our ordinary shares would likely decline, and you might lose all or part of your investment. This annual report also contains forward-looking statements, as a result of certain risk factors including the risks described below and elsewhere in this report and our other SEC filings. See also “Special Note Regarding Forward-Looking Statements” on page 1 of this annual report.*

#### **Risks Related to Our Business and Our Industry**

##### **Economic and External Risks**

***COVID-19, including the efforts to mitigate its impact, has had and may continue to have a material adverse effect on our business, liquidity, results of operations, financial condition and price of our securities.***

The ongoing pandemic caused by COVID-19 has had a significant impact on global economic activity. Efforts to contain or reduce the spread of COVID-19, such as shutdowns and “shelter-in-place” orders, have been suggested or mandated by governmental authorities or otherwise elected by companies as a preventative measure. Such efforts have adversely affected workforces, customers, consumer sentiment, economies and financial markets, and, along with decreased consumer spending, have led to an economic downturn in many of our markets. For example, Israel and federal and state governments in the United States, the locations in which our primary offices are located, have imposed limitations on gatherings, social distancing measures and restrictions on movement, only allowing essential businesses to remain open. Such orders or restrictions have resulted in temporary store closures, work stoppages, slowdowns and delays, travel restrictions and cancellation of events, among other effects, any of which may negatively impact workforces, customers, consumer sentiment and the economies in many of our markets, and as a result, may further adversely affect our operations.

As a result of COVID-19 and its widespread economic effects, we have implemented certain cost-reduction measures, including workforce reduction. Because we cannot predict the trajectory of COVID-19, we may need to implement additional cost-reduction measures in the future.

Operationally, as a result of COVID-19 and related response measures, we have transitioned our employees to remote working arrangements and temporarily closed and/or otherwise implemented hybrid remote-work with limited onsite presence in all of our offices worldwide. Due to the uncertainty of COVID-19, we will continue to assess the situation, including abiding by any government-imposed restrictions, market by market.

To date, this shift to remote work has not had a material adverse impact on our ability to continue our operations. Although currently our operations are handled mostly remotely (with some onsite hybrid presence) and run smoothly, the remote work arrangements could, if interrupted, negatively impact the execution of our business plans and operating results. In addition, continuous remote work arrangements could result in increased turnover or make it more difficult to train new employees. Similarly, if a natural disaster, power outage, connectivity issue, or other event were to occur that would inhibit or preclude our employees' ability to work remotely, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The increase in remote work also increases our potential exposure to security breaches and fraud attempts.

In the event that COVID-19 continues to persist, it is plausible that the ongoing global economic downturn will continue in parallel, which could adversely affect the demand for our products generally. A continued economic recession could also have a material adverse impact on the stability and financial strength of our business partners. Similarly, the widespread economic impact on certain business segments and verticals, such as travel and hospitality, has led to reductions in IT spending within those industries. In addition, the lack of visibility in the mitigation of the pandemic has led some businesses to prioritize shorter term budget planning and the deferral of strategic, longer-term IT projects. Our customers and partners, as a result, may adopt a similar budgetary approach which, if adopted, would impair our operations and results moving forward. While we have a strong cash position, we cannot guarantee that our financial condition will not be adversely affected in a material manner.

There are additional variables that frustrate our ability to accurately predict the impact that COVID-19 will have on our operations going forward. Despite the recent development and introduction of different vaccines to COVID-19, there is still much uncertainty as to the length of time that the pandemic and related disruptions will continue, the impact of governmental regulations or easing of regulations in response to the strengthening or weakening of the pandemic, and the degree of overall changes in consumer behavior.

To the extent COVID-19 adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described herein.

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

Our business depends on our current and prospective customers' ability and willingness to invest money in security policy management, which in turn is dependent upon their overall economic health. Negative economic conditions in the global economy, including, for instance, conditions resulting from COVID-19 or financial and credit market fluctuations, could cause a decrease in corporate spending on security software. The Americas accounted for the majority of our revenues in each of the years ended December 31, 2019 and 2020. EMEA also accounted for a significant portion of our revenues in each of the years ended December 31, 2019 and 2020, with revenues generated in Germany representing 30% and 29%, respectively, of EMEA revenues. Economic downturns and geopolitical challenges in the Americas, EMEA or certain other parts of the world may cause our customers in those locations to reevaluate decisions to purchase our solutions or to delay their purchasing decisions, which could adversely impact our results of operations due to the importance that region to us.

In addition, a significant portion of our revenues is generated from customers in the financial services industry, including banking and insurance, and the telecommunications industry. In the years ended December 31, 2019 and 2020, we generated approximately 47% and 48%, respectively, of our revenues from customers in the financial services and telecommunications industries. Negative economic conditions may cause customers in those industries in particular to reduce their IT spending. Customers may delay or cancel IT projects, choose to focus on in-house development efforts or seek to lower their costs by renegotiating maintenance and support agreements. To the extent purchases of licenses for our software are perceived by customers and potential customers to be discretionary, our revenues may be disproportionately affected by delays or reductions in general IT spending. If the economic conditions of the general economy or industries in which we operate worsen from present levels, our results of operation could be adversely affected.

***The security policy management market is rapidly evolving and difficult to predict. If the market does not continue to develop as we anticipate or if our target customers do not adopt our solutions, our revenues may not grow as expected and our share price may decline.***

We believe our future success depends in large part on growth in the security policy management market in which we compete. The security policy management market is subject to rapid technological change, evolving industry standards and a shift in the enforcement or scope of regulations to which our customers are subject, as well as changing customer needs, requirements and preferences. As such, it is difficult to predict important market trends, including potential growth. For example, organizations that currently use homegrown tools may believe that they already have sufficient security policy management products. Therefore, such organizations may allocate all or most of their network infrastructure budgets on other products and may not adopt our solutions in addition to or in lieu of other existing solutions. If the security policy management market does not continue to develop in the way we anticipate or if organizations do not recognize the benefits our solutions offer in addition to or in place of other existing solutions, then our revenues may not grow as expected and our share price could decline.

***Estimates of market opportunity and forecasts of market growth included in this annual report and in our public disclosures may prove to be inaccurate.***

Growth forecasts included in this annual report and in our public disclosures relating to our market opportunity and the expected growth in the security policy management market, which are subject to significant uncertainty, may prove to be inaccurate. We believe our policy management and automation functionalities define a new market, and we are not aware of any third-party research that accurately defines the scope of our directly addressable opportunity. As such, in early 2019 we estimated the market size using third-party data and, when third-party data was not available, internal estimates. We segment enterprises based on our estimates of their network infrastructure size and their need for our solutions across their networks, and apply an average annual billings figure per segment based on an estimated prior five years of inventory, resulting in an estimated directly addressable market of \$10.3 billion, which includes on-premise firewalls, private cloud and public cloud orchestration segments.

The addressable market we estimate may not materialize for many years. Even if the markets in which we compete meet the size estimates and growth forecast in this annual report or in our public disclosures, our business could fail to grow at similar rates. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, the forecasts of market growth included in this annual report or in our public disclosures are not indicative of our future growth.

***Political and economic uncertainty arising from the outcome of the United Kingdom's referendum on its membership in the European Union could adversely affect our business and results of operations.***

Part of our European sales team is currently located in England. In the United Kingdom, following the vote to approve an exit from the European Union, or EU, commonly referred to as "Brexit," the government officially separated from the EU on January 31, 2020. A transition period ended on December 31, 2020, during which the United Kingdom and the EU negotiated the terms of the United Kingdom's relationship with the EU going forward. With the implementation of the EU-United Kingdom Trade and Cooperation Agreement beginning on January 1, 2021, it is still unclear how the deal will impact relationships within the United Kingdom and between the United Kingdom and other countries on many aspects of fiscal policy, cross-border trade and international relations. The effects of and the perceptions as to the impact from the withdrawal of the United Kingdom from the European Union has and may continue to adversely affect business activity and economic and market conditions in the United Kingdom, Europe and globally, and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the pound sterling and the euro. In addition, Brexit could lead to additional political, legal and economic instability in the European Union.

It is also unclear what long-term economic, financial, trade and legal implications the withdrawal of the United Kingdom from the EU will have and how such withdrawal will affect our customers and our operations in the United Kingdom. As a result, it is possible that the level of economic activity in this region will be adversely impacted and that there will be increased regulatory and legal complexities. Therefore, it may be time-consuming and expensive for us to alter our internal operations in order to comply with any new regulations. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business in the United Kingdom, as well as our financial condition, results of operations and cash flows.

***Our investment portfolio may be adversely affected by market conditions and interest rates.***

We maintain substantial balances of liquid investments for operational and general corporate purposes. Our marketable securities amounted to \$42.3 million as of December 31, 2020. Our investments in marketable securities might be negatively affected by liquidity, credit deterioration, financial results and interest rate fluctuations, as well as other factors which may be impacted by market downturns or events that affect global financial markets. We generally buy and hold our marketable securities portfolio with the objective to minimize the potential risk of principal loss. Our investment policy sets limits for minimum credit rating and maximum concentration per issuer, as well as maximum time to maturity. Our investments consist primarily of government and corporate debentures.

Although we believe that we generally adhere to conservative investment guidelines, the continuing uncertainty in the financial markets, including due COVID-19, may result in impairments of the carrying value of our investment assets. Any significant decline in our financial income or the value of our investments as a result of the changes in interest rates and interest rate expectations of the financial markets, deterioration in the credit rating of the securities in which we have invested, or general market conditions, could have an adverse effect on our results of operations and financial condition.

## Operational Risks

***If we are unable to acquire new customers, particularly large organizations, our future revenues and operating results will be harmed.***

Our growth strategy is dependent, in part, on our ability to acquire new customers, particularly large organizations, which we define as those comprising the Global 2000. For example, in the year ended December 31, 2020, large organizations accounted for 63% of our revenues, excluding maintenance renewals. The size and number of customers that we add in a given period significantly and directly impact both our short-term and long-term revenues. If we are unable to attract a sufficient number of new large organization customers or if we attract customers that place orders of an insufficient size, we may be unable to generate revenue growth at desired rates. The security policy management market is competitive and we cannot guarantee that we will out-perform our competitors. In addition, in many cases, our primary competition is in-house, manual, spreadsheet driven processes and home-grown approaches to security management. As a result, we may not be able to add new customers at the levels we expect, or may need to spend more than we budgeted on our efforts to do so. Competition in the marketplace may also result in us winning fewer new customers, lowering prices or offering sales incentives to new customers. These factors may have a material negative impact on our future revenues and operating results.

Sales to large organizations involve risks that may not be present (or that are present to a lesser extent) with sales to smaller entities. These risks include:

- increased purchasing power and leverage held by large organizations in negotiating contractual arrangements with us, including, in certain cases, clauses that provide preferred pricing of configurations with similar specifications;
- the timing of individual large sales, which in some cases have occurred in a quarter subsequent to those we anticipated, or have not occurred at all;
- longer sales cycles and the associated risk that substantial time and resources may be spent on a potential customer that ultimately elects not to purchase our products or purchases fewer products than we anticipated;
- more stringent or costly requirements imposed upon us in our maintenance and professional services contracts with such customers, including stricter response times and penalties for any failure to meet maintenance and professional services requirements;
- more complicated and costly implementation processes and network infrastructure; and
- closer relationships with, and increased dependence upon, large technology companies who may offer competing products and have stronger brand recognition.

If we are unable to increase sales of our solutions and products to large organizations while mitigating the risks associated with serving such customers, our business, results of operations, prospects and financial condition may suffer.

***If the transition to a subscription-based business model fails to yield the benefits that we expect, our results of operations could be negatively impacted.***

We are in the process of transitioning to a subscription-based business model. It is uncertain whether this transition will prove successful. Market acceptance of our products is dependent on our ability to include functionality and usability that address certain customer requirements. Additionally, we must optimally price our products in light of marketplace conditions, our costs and customer demand. This transition may have negative revenue, earnings and cash flow implications, including on our quarterly results of operations. If we are unable to respond to challenges that may develop in our transition to subscription, our business could be harmed.

This subscription-based business strategy may give rise to a number of risks, including the following:

- our revenues and cash flows may fluctuate more than anticipated over the short-term;
- if new or current customers do not desire to consume our offerings under a subscription model, our subscription sales may lag behind our expectations;
- the shift to a subscription model may raise concerns among new or existing customers, resellers and investors, including concerns with respect to changes to pricing over time and access to our products once a given subscription has expired, which could slow adoption rates;

- our success in maintaining or implementing our target pricing or new pricing models, product adoption and projected renewal rates, or selection of a target price or new pricing model that is not optimal and could negatively affect our sales or earnings;
- the shift to subscription may create a subscription pricing disadvantage against our competition and increase our loss rates against competition;
- if our customers do not renew their subscriptions or do not renew them on a timely basis, our revenues may decline and our business may suffer;
- we may incur sales compensation costs at a higher than forecasted rate if the pace of our subscription transition is faster than anticipated; and
- our sales force may have difficulty with the transition which may lead to increased turnover rates and lower headcount.

***If we are required to and fail to successfully manage any changes to our business model, including the transition of our products to subscription services, our results of operations could be harmed.***

In February 2021, we announced our intention to transition from perpetual licenses to a subscription-based sales model. This adjustment to our business model requires a considerable investment of technical, financial, legal and sales resources. We may assume greater responsibilities for implementation related services during this transition. As a result, we may face risks associated with new and complex implementations, the cost of which may differ from original estimates. As a result of the transition to a subscription-based sales model, we may experience consequences such as monetary credits for current or future service engagements, reduced fees for additional product sales and refusal by our customers to pay contractually-obligated subscription or service fees.

***Our failure in transitioning our business model to be primarily subscription may adversely affect valuation methods applied by investors and analysts on our enterprise value.***

Enterprise valuation methods, may be applied differently on enterprises that are operating primarily under a subscription based recurring revenue model than an enterprise that is operating primarily under a perpetual license sales model. Investors and/or analysts applying valuation methods to our company under the assumption that we will be successful with transitioning to a primarily subscription based sales model, may have to adversely revise their valuations if we fail to achieve this transition in line with their expectations.

***Our business depends substantially on our ability to retain existing customers and expand our offerings to them, and our failure to do so could harm future results of operations.***

We generate a significant portion of our revenues from sales to existing customers and our business depends substantially on our ability to retain customers and expand our offerings to them. For example, during the year ended December 31, 2020, we generated approximately 71% of our revenues, excluding maintenance renewals, from sales to existing customers. We offer four products that comprise the Tufin Orchestration Suite: SecureTrack, SecureChange, SecureApp and, as of February 2020, SecureCloud. The majority of our customers initially purchase SecureTrack to monitor part of their networks. Initial product deployments frequently expand across departments, divisions and geographies and result in the purchase of additional products, such as SecureChange and SecureApp. We also expect SecureCloud, which allows for visibility and control of the security posture in cloud-native and hybrid cloud environments, to contribute to our revenues over time. Finally, we introduced the Tufin Marketplace in 2020 as a place where customers can find and deploy applications and extensions that enhance the overall value of their Tufin security policy management implementations. A number of the applications in the Marketplace, including the recently released Vulnerability Mitigation App, require a paid license and are expected to generate revenue in the future.

The rate at which our existing customers purchase additional products and services depends on a number of factors, including the perceived need for additional IT security, our customers' IT budgets, the efficacy of our solutions, general economic conditions, our customers' overall satisfaction with our products and services and the continued growth and economic health of our customer base. If our efforts to sell additional products and services to our customers are not successful, our future revenues and operating results will be harmed.

We devote significant efforts to developing and marketing product updates to existing customers and rely on these efforts for a portion of our revenues. This requires a significant investment in building and maintaining customer relationships, as well as significant research and development efforts in order to launch product updates and new products. Our future success depends, in part, on our ability to continue to expand sales of our current product offerings to existing customers, sell additional licenses for our current products to our existing customers and develop and sell new products to existing customers.

***Our sales cycle is long and unpredictable, which may cause significant fluctuations in our quarterly results of operations.***

The timing of our sales and related revenue recognition is difficult to predict because of the length and unpredictability of the sales cycle for our products. We and our channel partners often spend significant time and resources to better educate and familiarize potential customers with the value proposition of our products and platform. Our sales cycle usually lasts several months from proof of concept to purchase order from our customers, and it is often even longer, less predictable and more resource-intensive for larger transactions. Customers may also require additional internal approvals or seek to test our products for a longer trial period before deciding to purchase our solutions. Furthermore, even if we close a large transaction during a given quarter, we may be unable to recognize the revenues derived from such a transaction due to our revenue recognition policy. See “Item 5.A. Operating and Financial Review and Prospects—Operating Results—Application of Critical Accounting Policies and Estimates—Revenue Recognition.”

In addition, in the past, customers have deferred significant purchases to the last quarter of the year when they can determine what amount of their annual budget remains unused. As a result, the timing of individual sales can be difficult to predict. We generally expect an increase in business activity as we approach our fiscal year end in December, driven by our customers’ buying patterns. We believe that these seasonal trends will continue to affect our quarterly results. Large individual sales have, in some cases, occurred in quarters subsequent to those we anticipated or have not occurred at all. The loss or delay of one or more large transactions in a quarter could impact our anticipated results from operations for that quarter and future quarters for which revenues from those transactions are delayed. We may not be able to accurately predict or forecast the timing of sales, which has caused and could again cause our results to vary significantly from our expectations and the expectations of market analysts. In addition, we might devote substantial time and effort to a particular unsuccessful sales effort, and as a result we could lose other sales opportunities or incur expenses that are not offset by an increase in revenue, which could harm our business.

***We face competition in the security policy management market in which we operate, and we may lack sufficient financial or other resources to maintain or improve our competitive position.***

We face competition in the security policy management market in which we operate. In many cases, our primary competition is in-house, manual, spreadsheet driven processes and home-grown approaches to security management, and we and our channel partners may not be successful in educating and familiarizing potential customers with the value associated with our products and services. Our direct competitors include vendors such as AlgoSec, Inc., FireMon, LLC and Skybox Security LLC that offer solutions that compete with all or some of our products or product features. We also indirectly compete with large security companies that offer a broad array of traditional security management solutions, such as Palo Alto Networks, Inc. and Cisco Systems, Inc., for a share of enterprises’ IT security budgets.

Some of our competitors are large companies that have the technical and financial resources and broad customer bases needed to bring products that are competitive with ours to market and already have existing relationships as a trusted vendor for other products. Such companies may use these advantages to offer products and services that are perceived to be as effective as ours at a lower price or for free as part of a larger product package or solely in consideration for maintenance and professional services fees. As the security policy management market grows, we expect competition to increase in the future from both existing competitors and new companies that may enter our markets. Some of our competitors may develop different products that compete with our current solutions and respond more quickly and effectively than we do to new or changing opportunities, technologies, standards or client requirements, including in cloud-native environments.

Organizations that use other products or home-grown tools may believe that these products or tools are sufficient to meet their security policy management needs or that our products only serve the needs of a portion of the enterprise security market. Accordingly, these organizations may continue allocating their IT budgets for other products, and may not adopt our products. Further, many organizations have invested substantial personnel and financial resources to design and operate their networks and have established deep relationships with other providers of networking and security products. As a result, these organizations may prefer to purchase from their existing suppliers rather than add or switch to a new supplier, such as us, regardless of product performance, features, or greater services offerings or may be more willing to incrementally add solutions to their existing security infrastructure from existing suppliers than to replace it wholesale with our solutions.

Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources. For instance, in February of 2020, a direct competitor of ours, AlgoSec, Inc., announced that they have entered into an agreement with Cisco Systems Inc. in which AlgoSec’s products were listed in Cisco’s price list and can be sold by some of Cisco’s sales force, expanding AlgoSec’s potential market reach. Current or potential competitors may be acquired by third parties with greater available resources. As a result of such acquisitions, our current or potential competitors might be able to adapt more quickly to new technologies and customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of other opportunities more readily or develop and expand their product and service offerings more quickly than we do.

***The recent decrease to our revenue may be indicative of our future performance.***

For the years ended December 31, 2019 and 2020, our revenues were \$103.3 million and \$100.8 million, respectively, representing a year-over-year decrease of 2%. While in the year ended December 31, 2019 we reported a revenue growth rate of 22%, our revenue decreased in the year ended December 31, 2020, which may be indicative of our future performance and we may not return to our growth rate trajectory reported in prior fiscal periods. Factors that could impact our ability to return to positive revenue growth include the impact of COVID-19 on customer demand for our products and services, the unsuccessful transition to a subscription-based business model, our ability to increase the size or efficiency of our sales force, which has expanded rapidly in recent years, our ability to achieve repeat purchases by existing customers, our ability to successfully compete with other companies and the extent to which we are successful in securing large-scale deployments, particularly among our large, Global 2000 customers. If we are unable to increase revenues, our share price could experience volatility, and our ability to achieve and maintain profitability could be adversely affected.

***Our business and operations have slowed down in relation to recent periods of growth, and if we do not appropriately manage our current business and operations, our results of operations may not return to previous growth rates and outputs.***

During previous fiscal periods, we experienced growth that placed significant demands on our management, administrative, operational and financial infrastructure. During the year end December 31, 2020, we were required to adapt to a variety of challenging economic conditions, including COVID-19 which triggered certain cost reduction initiatives, including workforce reduction, as well as increasing recruitment efforts initiated by competitors, threatening both our ability to maintain current talent and hire potential talent. Specifically, as of December 31, 2020, we had 533 employees and contractors compared to 568 as of December 31, 2019. While we expect that the transition to a subscription-based business model will have a positive impact on our business in the long-term, we cannot guarantee that our business and operations will return to the growth rates experienced in previous fiscal periods.

Our success and return to previous growth rates will depend in part upon, among other things, our ability to manage and increase the productivity of our existing employees, particularly our sales force, and hire, train, and manage new employees and expand our network of channel partners. To manage the domestic and international growth of our operations and personnel, we will need maintain or to continue to improve our operational, financial, and management controls, as well as our reporting processes and procedures.

These additional investments will increase our operating costs, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. We may not be able to successfully acquire or implement these or other improvements to our systems and processes in an efficient or timely manner, or once implemented, we may discover deficiencies in their capabilities or effectiveness. We may experience difficulties in managing improvements to our systems and processes or in integrating with third-party technology. In addition, our systems and processes may fail to prevent or detect errors, omissions or fraud. Our failure to improve our systems and processes, or their failure to operate effectively and in the intended manner, may result in the disruption of our current operations and customer relationships, our inability to manage the growth of our business and our inability to accurately forecast and report our revenues, expenses and earnings, any of which may materially harm our business, results of operations, prospects and financial condition.

***We have a history of losses, and we may not be able to generate sufficient revenues to achieve and sustain profitability.***

We have incurred net losses in each period since our inception, including net losses of \$28.1 million and \$35.4 million for the years ended December 31, 2019 and 2020, respectively. As of December 31, 2020, our accumulated deficit was \$103.8 million. We expect our operating expenses to increase significantly as we continue to expand our sales and marketing efforts, in part, by building our sales platforms, continue to devote significant research and development resources to our solutions and continue to expand our operations in existing and new geographies and vertical markets. Given that we reported a year-over-year decrease in revenues for 2020, we may continue to generate losses. In addition, as we transition to a subscription-based business model, our revenues and cash flows may fluctuate more than anticipated over the short-term. We cannot assure investors that we will achieve profitability in the future or that, if we do become profitable, we will be able to sustain profitability.

***We are subject to a number of risks associated with international sales and operations.***

We operate a global business with offices located primarily in Israel and the United States. In the year ended December 31, 2020, we generated 54%, 40% and 6% of our revenues from customers in the Americas, EMEA and APAC, respectively. Business practices in the international markets that we serve may differ from those in the United States and may require us to include non-standard terms in customer contracts, such as extended payment or warranty terms. To the extent that we enter into customer contracts that include non-standard terms related to payment, warranties, or performance obligations, our results of operations may be adversely impacted.

Additionally, our international sales and operations are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and managing collections, as well as longer collection periods;
- higher costs of doing business internationally, including costs incurred in establishing and maintaining office space and equipment for our international operations;
- management communication and integration problems resulting from cultural and geographic dispersion;
- risks associated with trade restrictions and foreign legal requirements, including any importation, certification, and localization of our platforms that may be required in foreign countries;

- greater risk of unexpected changes in regulatory practices, tariffs and tax laws and treaties;
- compliance with anti-bribery laws, including, without limitation, compliance with the U.S. Foreign Corrupt Practices Act, the bribery sections of the Israeli Penal Law, 5737-1977 and the U.K. Bribery Act;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;
- the uncertainty of protection for intellectual property rights in some countries;
- general political and economic conditions, including due to the impact of COVID-19, in these foreign markets; and
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the tax laws of the United States, Israel or the other jurisdictions in which we operate.

These and other factors could harm our ability to generate future international revenues and, consequently, materially impact our business, results of operations and financial condition.

***If third-party applications and network products change such that we do not or cannot maintain the compatibility of our platforms and solutions with these applications and products, or if we fail to provide integrations that our customers desire, demand for our solutions and platforms could decline.***

The attractiveness of our platforms depends, in part, on our ability to integrate with third-party applications and network products that our customers use or desire to use. Third-party providers may change the features of their applications and platforms or alter the terms governing use of their applications and platforms in an adverse manner. Further, third-party application providers may refuse to partner with us, or limit or restrict our access to their applications and platforms. Such changes could functionally limit or terminate our ability to use these third-party applications and systems with our platform, which could negatively impact our offerings and harm our business. If we fail to integrate our platforms with new third-party applications that our customers desire, or to adapt to the requirements of such third-party applications and platforms, we may not be able to offer the functionality that our customers expect, which would negatively impact our ability to retain current customers or obtain new customers. As a result, our offerings and, consequently, our business, could be adversely harmed.

***If our products and services do not effectively interoperate with our customers' existing or future IT infrastructures, deployments and integrations could be delayed or canceled, which would harm our business.***

Our products and services must effectively interoperate with our customers' existing or future IT infrastructure, which often has different specifications, utilizes multiple protocol standards, deploys products from multiple vendors and contains multiple generations of products that have been added over time. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems. If we find errors in the existing software or defects in the hardware used in our customers' infrastructure or problematic network configurations or settings, we may have to modify and improve our software so that our products will integrate with our customers' infrastructure. In such cases, our products may be unable to support some of the configurations or protocols used in our customers' infrastructure. These issues could cause longer deployment and integration times for our products and could cause order cancellations, either of which would adversely affect our business, results of operations and financial condition. Additionally, any changes in our customers' IT infrastructure that degrade the functionality of our products or services but which are better supported by competitive software, could adversely affect the adoption and usage of our products.

***Because we derive most of our revenues from sales of licenses and maintenance for SecureTrack, SecureChange and SecureApp, which belong to a single platform of products – the Tufin Orchestration Suite – the failure of these products to satisfy customers or to achieve increased market acceptance would adversely affect our business.***

In the fiscal year ended December 31, 2020, we generated most of our revenues from sales of licenses and maintenance for SecureTrack, SecureChange and SecureApp. We recently introduced SecureCloud and the Tufin Marketplace apps to the market, and have not yet derived significant revenues from the sales of these products and applications. We expect to continue to derive a majority of our revenues from license and maintenance sales relating to the Tufin Orchestration Suite in the future. As such, market acceptance of this platform of products is critical to our continued success. Demand for licenses for the Tufin Orchestration Suite is affected by a number of factors, some of which are outside of our control, including continued market acceptance of our software by our customers and potential customers, the viability of existing and new use cases, technological change and growth or contraction in our market. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of our software, our business, operations, financial results and growth prospects will be materially and adversely affected.



***If we are unable to increase market awareness of our company and our solutions, or fail to successfully promote or protect our brand, our competitive market position and revenues may not continue to grow or may decline.***

We believe that improved awareness of our brand and the value proposition of our solutions will be essential to our continued growth and our success. Many factors, some of which are beyond our control, are important to maintaining and enhancing our brand, including our ability to increase awareness among existing and potential channels partners through various means of marketing and promotional activities. For example, as a result of various restrictions implemented by governments across the globe as a response to COVID-19, we were compelled to adjust the way in which we market and sell our products, either by way of virtual conferences or otherwise. We cannot guarantee that we will be successful in our transition to a more virtually-inclined marketing and sales model, and if unsuccessful our results of operations may be materially and adversely affected. If our marketing efforts are unsuccessful in improving market awareness of our brand and our solutions, then our business, results of operations, prospects, and financial condition will be adversely affected, and we will not be able to achieve sustained growth.

Moreover, due to the intensely competitive nature of our market, we believe that building and maintaining our brand and reputation is critical to our success and that the importance of positive brand recognition will increase as competition in our market may further intensify. While we believe that we are successfully building a well-established brand and have invested and expect to continue to invest substantial resources to promote and maintain our brand, both domestically and internationally, there can be no assurances that our brand development strategies will enhance our reputation or brand recognition or lead to increased revenue.

Furthermore, an increasing number of independent industry analysts and researchers, such as Gartner, IDC and 451 Research LLC, regularly evaluate, compare and publish reviews regarding the functionality of security products and services, including our solutions. These reviews may significantly influence the market perception of our solutions. We do not have any control over the content of these independent industry analysts and researchers' reports, and our reputation and brand could be harmed if they publish negative reviews of our solutions or do not view us as a market leader. The strength of our brand may also be negatively impacted by our competitors' marketing efforts, which may include incomplete, inaccurate and misleading statements about our business, products and services. If we are unable to maintain a strong brand and reputation, sales to new and existing customers could be adversely affected, and our financial performance could be harmed.

***Our business and reputation could be harmed based on real or perceived shortcomings, defects or vulnerabilities in our solutions or the failure of our solutions to meet customers' expectations.***

Our products are designed to assist customers in the management of their IT networks, enhance visibility and control across their networks, ensure compliance with security standards and embed security enforcement into their workstreams. However, despite the implementation of security measures, the solutions we sell to customers, including our cloud-based solutions, could contain vulnerabilities that are not capable of being remedied or detected until after their deployment. If we fail to update our products to remedy, detect or prevent such threats, our business and reputation will suffer. Moreover, as our solutions are adopted by an increasing number of enterprises and governmental entities, including the U.S. federal government, cyberattackers may focus on finding ways to defeat our solutions. The data stored in our products' database is highly sensitive, and includes our customers' current enterprise-wide network configuration and security policies. If our products' security configuration is breached, this data could be used by malicious actors, including external hackers and rogue employees within our customers' organizations, to plan how they could effectively traverse our customers' networks and gain unauthorized access to critical systems and data. A breach or theft of our customers' sensitive business data, regardless of whether the breach or theft is attributable to the failure of our products, could adversely affect the market's perception of the efficacy of our solutions and current or potential customers may look to our competitors for alternatives to our solutions. The failure of our products may also subject us to lawsuits and financial losses stemming from indemnification of our partners and other third parties, as well as the expenditure of significant financial resources to analyze, correct or eliminate any vulnerabilities. Although we seek to limit our financial exposure in such circumstances through caps on our indemnification obligations to customers, customers may litigate the enforceability of such caps and it is possible that such litigation may be successful in certain circumstances. Any such event could also cause us to suffer reputational harm, lose existing customers or deter them from purchasing additional products and services and prevent new customers from purchasing our solutions.

***If we fail to maintain successful relationships with our channel partners, or if our channel partners fail to perform, our ability to market, sell and distribute our solutions will be limited, and our business, financial position and results of operations will be harmed.***

We sell our products and services through our sales force, including our field sales team and our inside sales team, which works closely with our global network of over 150 active channel partners as of December 31, 2020. Our channel partners include distributors and resellers, as well as service delivery partners that help customers successfully deploy, configure, customize and maintain our products and services. Our channel partners fulfill orders constituting substantially all of our revenues. Certain of our new customer leads are generated by our channel partners. For the years ended December 31, 2019 and 2020, our two largest channel partners accounted for 15% and 9% of our revenues and 15% and 10% of our revenues, respectively. Our agreements with these channel partners provide that each partner agrees to sell and distribute our products within certain territories for one year. These agreements are nonexclusive and non-transferable, and automatically renew unless terminated by either party after providing prior written notice. As of December 31, 2020, three of our channel partners accounted for 10% or more of our accounts receivable, accounting for an aggregate of 39% of our accounts receivable. Our engagements with these channel partners are generally based on separate contractual relationships with different business units across multiple jurisdictions rather than on a single agreement.

As a result of this concentration, if a channel partner ceases to perform services for us, we may face disruptions in deploying solutions to our customers. Additionally, we are exposed to the credit risk of our channel partners in the event they become insolvent while owing us payment. If our channel partners do not effectively provide support to the satisfaction of our customers, we may be required to provide additional support to such customers, which would require us to invest in additional personnel and may require us to devote significant time and resources and divert attention away from other customers or opportunities. If our channel partners do not effectively market and sell our solutions, or choose to use greater efforts to market and sell the products and services of our competitors, our ability to grow our business may be adversely affected.

Our relationships with channel partners have been, and could in the future be, terminated with little or no notice if they become subject to bankruptcy or other similar proceedings. The loss of our major channel partners, the inability to replace them or the failure to recruit additional channel partners could materially and adversely affect our results of operations. If we are unable to maintain our relationship with channel partners or otherwise develop and expand our sales channels, or if our channel partners fail to perform, our business, financial position and results of operations could be adversely affected.

***Our increasing focus on expanding security policy management to cloud-native environments presents execution and competitive risks.***

While many organizations see the cloud as a scalable extension of their existing data center, some are adopting the DevOps approach to cloud application development. Pricing and delivery models are evolving. Different usage models and network security architectures in the cloud influence customers' choice of cloud-based security products. Our ecosystem must continue to evolve with this changing environment. We plan to devote significant resources to develop and deploy our cloud-based strategies. Unlike traditional enterprise applications, in which every connectivity change is controlled and managed by IT, in cloud-native environments, the developers and DevOps engineers typically have administrative rights over the infrastructure. The connectivity decisions and changes made by developers in cloud-native applications can have an immediate impact on the organization's security posture, with little or no oversight by the security team. Our success in developing cloud-native solutions is connected with the fragmentation of enterprise networks between on-premise networks and the cloud environment, the growing use of cloud infrastructure and cloud-native development environments and the level of adoption of cloud platforms such as Google Cloud, Amazon Web Services, or AWS, Microsoft Azure, Check Point and Palo Alto.

We may not establish sufficient market share to achieve the scale necessary to achieve our business objectives. If we are not effective in executing organizational and technical changes to increase efficiency and accelerate innovation, or if we fail to generate sufficient usage of our new products and services, we may not grow revenues in line with the infrastructure and development investments described above.

***If our maintenance or professional services are not satisfactory to our customers, they may not renew their maintenance or professional services contracts, which could adversely affect our future results of operations.***

Our customers depend in large part on customer support delivered through our channel partners or by us to resolve issues relating to the use of our solutions. Our agreements with customers typically provide certain service level commitments, including with respect to initial response time for support. Our business relies on our customers' satisfaction with the technical maintenance and support and professional services we provide to support our products. While the majority of our software is sold under perpetual license agreements, all of our maintenance and professional services contracts are sold on a term basis. Our customers typically purchase one or three years of software maintenance in addition to their initial purchase of our products, with an option to renew their maintenance contracts. In order for us to maintain and improve our results of operations, it is important that our existing customers renew their maintenance contracts when the term expires. For example, for each of the years ended December 31, 2019 and 2020, our maintenance renewal rate was over 90%. Maintenance and support revenues have increased as a percentage of our revenues in each of these years.

The failure of our customers to correctly use our solutions, or our failure to effectively assist customers in deploying and integrating our solutions and providing effective ongoing support, may result in an increase in the vulnerability of our customers' networks and their sensitive business data. If we fail to provide technical support services that are responsive, satisfy our customers' expectations and resolve issues that they encounter with our products and services, then they may elect not to renew annual maintenance and support contracts and they may choose not to purchase additional products and services from us. Accordingly, our failure to provide satisfactory technical support or professional services could lead our customers not to renew their agreements with us or renew on terms less favorable to us, and therefore have a material and adverse effect on our business and results of operations.

***We depend on a single third-party hardware manufacturer for the hardware that we use to fulfill certain orders for our software licenses, and delays or disruptions in fulfilling such orders could materially and adversely impact our operations.***

We depend on a single third-party manufacturer to supply the computer hardware on which our licensed software is installed for certain customers. Specifically, when placing an order, a customer may elect to download our software onto its own computer hardware that meets our specifications or purchase computer hardware from us with our software pre-installed. In the years ended December 31, 2019 and 2020, transactions in which customers purchased software pre-installed on computer hardware that we supplied accounted for 28% and 21%, respectively, of our sales. Our computer hardware supplier fulfills our requirements on a purchase order basis and we hold only limited inventory. We do not have a long-term contract with the supplier that guarantees capacity or the continuation of particular pricing terms. There are alternative suppliers for the computer hardware, but that hardware would initially not be optimized for our software. Furthermore, in the event of a disruption in supply, we would need to inform customers with pending orders regarding the change in hardware and offer them the choice of supplying their own hardware or using alternate hardware that we would supply, both of which may cause delays in the timely fulfillment of their orders. This could have a material adverse effect on our business and results of operations.

***Our business depends, in part, on sales to the public sector, and significant changes in the contracting or fiscal policies of the public sector could have an adverse effect on our business.***

We derive a portion of our revenues from sales of our solutions to federal, state, local and foreign governments, and we believe that the success and growth of our business will continue to depend in part on our successful procurement of government contracts. Factors that could impede our ability to maintain or increase the amount of revenues derived from government contracts include:

- changes in fiscal or contracting policies;
- decreases in available government funding;
- changes in government programs or applicable requirements;
- the adoption of new laws or regulations or changes to existing laws or regulations; and
- potential delays or changes in the government appropriations or other funding authorization processes.

The occurrence of any of the foregoing could cause governments and governmental agencies to delay or refrain from purchasing our solutions or otherwise have an adverse effect on our business, operating results and financial condition.

### **Legal, Regulatory and Security Risks**

***Our business and reputation could be harmed if cybersecurity risks materialize.***

Our customers face increasingly sophisticated and targeted cyberthreats, including as a result of the increase in remote working arrangements due to COVID-19. Many of our enterprise customers are experiencing more cyberthreats as enterprise networks are becoming increasingly fragmented with firewalls from different vendors, public and private clouds and microservices in containers.

While our products and services specifically aim to offer solutions to these risks, they may nevertheless contain vulnerabilities to such threats, which are a growing and evolving risk and are often difficult or impossible to detect for long periods of time or to successfully defend against. Successful attacks, whether through external or internal actors, could harm the confidentiality, integrity and availability of personal data and other sensitive information, as well as the integrity and availability of our systems, products and services in a manner that could materially and adversely affect our business. Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, such a security breach could impair our ability to operate our business, including our ability to provide maintenance and support services to our customers. If this happens, our revenues could decline and our business could suffer. In addition, if we suffer a highly publicized security breach, even if our platform and solutions perform effectively, such a breach could cause us to suffer reputational harm, lose existing commercial relationships and customers or deter customers from purchasing additional solutions and prevent new customers from purchasing our solutions.

***We are subject to data protection and privacy laws, regulations, standards, and contractual obligations, the breach of which could subject us to fines and harm our reputation.***

We are subject to an expanding number of domestic, international and contractual legal requirements regarding privacy, personal data rights and data protection ("Applicable Data Obligations"). The Applicable Data Obligations continue to evolve and address a range of issues, including restrictions or technological requirements regarding the collection, use, storage, protection, retention, and transfer of personal data. Violation of the Applicable Data Obligations could result in substantial fines, penalties and related defense costs. For example, the GDPR provides for penalties that could reach the greater of 20 million Euros or 4% of a company's worldwide annual turnover 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.

Additionally, we are also subject to the California Consumer Privacy Act ("CCPA"), which came into effect in January 2020 and imposes heightened transparency obligations, adds restrictions on the "sale" of personal information, and creates new data privacy rights for California residents and carries significant enforcement penalties for non-compliance. The California Attorney General enforces the CCPA and can seek an injunction and civil penalties up to \$7,500 per intentional violation and \$2,500 per other violation. The CCPA also provides California consumers a private right of action for certain data breaches where they can recover up to \$750 per incident, per consumer or actual damages, whichever is greater, and which is expected to increase data breach litigation. The CCPA may require us to modify our data practices and policies and to incur substantial costs and expenses in order to comply.

On November 3, 2020, California voters passed the California Privacy Rights Act (“CPRA”) into law, which will take effect in January 2023 and 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 and CPRA could mark the beginning of a trend toward more stringent U.S. federal privacy legislation, which could increase our potential liability and adversely affect our business.

In addition, we are also subject to the Israeli Privacy Protection Law 5741-1981 (the “PPL”), and its regulations, including the Israeli Privacy Protection Regulations (Data Security) 2017 (“Data Security Regulations”, and collectively “Israeli Law”), which impose obligations with respect to the manner personal data is processed, maintained, transferred, disclosed, accessed and secured, as well as the guidelines of the Israeli Privacy Protection Authority. Failure to comply with the Israeli Law may expose us to administrative fines, civil claims (including class actions), and in certain exceptional and unusual circumstances, criminal liability. The Israeli Privacy Protection Authority may initiate administrative inspection proceedings, from time to time, without any suspicion of any particular breach of the PPL, as the Authority has done in the past with respect to dozens of Israeli organizations in various sectors. In addition, to the extent that any administrative supervision procedure is initiated by the Israeli Privacy Protection Authority that reveals certain irregularities with respect to our compliance with the PPL, in addition to our exposure to administrative fines, civil claims (including class actions) and in certain cases criminal liability, we may also need to take certain remedial actions to rectify such irregularities, which may increase our costs.

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.

These and other legal requirements may be interpreted and enforced in a manner that is inconsistent with our existing practices or the features of our products and services. We may also be subject to claims of liability or responsibility for the actions of third parties with whom we interact or upon whom we rely in relation to various products and services, including our channel partners. In addition to the possibility of our being subject to enforcement actions, fines, lawsuits and other claims with respect to these and other legal requirements, we could be required to fundamentally change our business activities and practices or modify our products and services, which could have an adverse effect on our business. Any inability to adequately address customer privacy and data protection concerns, even if unfounded, or to comply with Applicable Data Obligations, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

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

We use open source software in our products and our development environments and expect to continue to use open source software in the future. Open source software is typically provided without warranties or assurances of any kind. Some open source licenses contain requirements that the users of such software make available source code for modifications or derivative works we create based upon the open source software used, and many open source licenses include provisions that have not been interpreted by the courts. We monitor and control our use of open source software in an effort to avoid unanticipated conditions or restrictions on our ability to successfully commercialize our products and solutions. We believe that our compliance with the obligations under the various applicable licenses has mitigated the risks that we would trigger any such conditions or restrictions. However, such use may have inadvertently occurred in the development and offering of our products and solutions. If we combine our proprietary software with open source software in a certain manner that is not intended under our policies or monitoring practices, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar products quickly with lower development effort and ultimately could result in a loss of sales for us.

The terms of many open source software licenses have not been interpreted by U.S. or foreign courts, and there is a risk that, once interpreted, those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to successfully commercialize our products and solutions. For example, certain open source software licenses may be interpreted to require that we offer our products or solutions that use the open source software for no cost; that we make available the source code for modifications or derivative works we create based upon, incorporating or using the open source software (or that we grant third parties the right to decompile, disassemble, reverse engineer or otherwise derive such source code); that we license such modifications or derivative works under the terms of the particular open source license; or that otherwise impose limitations, restrictions or conditions on our ability to use, license, host or distribute our products and solutions in a manner that limits our ability to successfully commercialize our products.

This potential litigation could require us to purchase costly licenses or devote additional research and development resources to change our products or services, either of which would have a negative effect on our business and results of operations. In addition, if the license terms for the open source software we utilize change, we may be forced to reengineer our offerings or incur additional costs. Although we monitor the use and incorporation of open source software into our products, we cannot be certain that we have, in all cases, incorporated open source software in our products in a manner that is consistent with the applicable open source license terms.

***We may become a party to commercial disputes, claims and legal actions, which are costly and may result in adverse outcomes for us.***

Third parties may bring legal actions against us. Such actions, even if without merit, could harm our business. Although we have contractual protections, such as warranty disclaimers and limitation of liability provisions in our standard terms and conditions of sale (and we seek to include those protections when negotiating third party terms and conditions), they may not fully or effectively protect us from claims by customers, commercial relationships or other third parties.

In addition, we may become subject to disputes with customers over the terms of our agreements with them. Our agreements with certain larger customers grant those specific customers the right to use our software for specific purposes or within a specific scope. From time to time, we have disagreed with customers over the interpretation of those agreements. Such disagreements may harm our relationships with customers and could ultimately result in legal proceedings.

The results of complex legal proceedings, whether brought by us or by others against us, are difficult to predict. An unfavorable resolution of any lawsuit could adversely affect our business, results of operations, prospects or financial condition. Any insurance coverage that we have may not adequately cover all claims asserted against us, or may cover only a portion of such claims. In addition, even if claims do not result in litigation or ultimately are resolved in our favor, such claims could result in our expenditure of funds in litigation, and divert management's time and other resources. Litigation in general and securities litigation in particular, can be expensive, lengthy and disruptive to normal business operations. For example, we are subject to putative class action lawsuits in New York state court alleging federal securities law violations in connection with our initial public offering, as well in the Southern District of New York alleging federal securities law violations in connection with our initial public offering and secondary public offering. Based on information currently available and the current stage of the litigation, we are unable to reasonably estimate a possible loss or range of possible losses, if any, with regard to these claims. Our business, results of operations, and financial condition could be materially and adversely affected by such costs and any unfavorable outcomes in current or future litigation.

***If our products fail to help our customers achieve and maintain compliance with government regulations and industry standards, our business and results of operations could be materially adversely affected.***

We generate a substantial portion of our revenues from our products and services because they help our customers achieve and maintain compliance with government regulations and industry standards, and we expect that will continue for the foreseeable future. Industry standards may change with little or no notice, including changes that could make them more or less onerous for businesses. Governments may also adopt new laws or regulations, or make changes to existing laws or regulations, that could impact whether our solutions enable our customers to maintain compliance with such laws or regulations. Examples of industry and government regulations include the Payment Card Industry Data Security Standard, or PCI-DSS, the Sarbanes-Oxley Act, the North American Electric Reliability Corporation Critical Infrastructure Protection standards, or NERC-CIP, the General Data Protection Regulation, or GDPR, the NIST Cybersecurity Framework and the Health Insurance Portability and Accountability Act of 1996, or HIPAA. If we are unable to adapt our solutions to changing regulatory standards in a timely manner, or if our solutions fail to expedite our customers' compliance initiatives, our customers may lose confidence in our products and could switch to products offered by our competitors. In addition, if regulations and standards related to information security change in a manner that makes them less onerous, our customers may view government and industry regulatory compliance as less critical to their businesses, and our customers may be less willing to purchase our products and services. In either case, our sales and financial results would suffer.

***We are subject to governmental export and import controls that could subject us to liability in the event of non-compliance or impair our ability to compete in international markets.***

We incorporate encryption capabilities into certain of our products and these products thus may be subject to U.S. export control requirements. We are also subject to Israeli regulations controlling the use, import and export of encryption technology since our product development initiatives are primarily conducted in Israel. In December 2013, regulations under the Wassenaar Arrangement for the first time included a chapter on cyber-related matters. We believe that our products do not fall under this chapter; however, in the future we may become subject to this regulation or similar regulations, which would limit our sales and marketing activities and could therefore have an adverse effect on our results of operations. We have satisfied U.S. and Israeli export control requirements to export our products to most customers and jurisdictions outside of the United States and Israel, and we have satisfied other provisions of Israeli law governing the use of encryption technology. If the applicable U.S. and Israeli requirements regarding the export of encryption software or technology change or if we change the encryption means in our products or technology, we may need to satisfy additional requirements in the United States or Israel. Furthermore, various other countries regulate the import of certain encryption products and technology, including import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries.

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

In addition, in the future we may be subject to defense-related export controls. For example, currently our solutions are not subject to supervision under the Israeli Defense Export Control Law, 5767-2007, or the Import and Export Decree (Export Control over Dual Use Goods, Services and Technology), 5766-2006, but if the definitions of regulated cybersecurity are changed and our products are becoming classified as defense-related, we would become subject to such regulation. In particular, under the Defense Export Control Law, an Israeli company may not conduct “defense marketing activity” without a defense marketing license from the Israeli ministry of defense and may be subject to a requirement to obtain a specific license from the Israeli ministry of defense for any export of defense-related products, services and/or know-how. The definition of defense marketing activity is broad and includes any marketing of “defense equipment, services and/or know-how” outside of Israel or to a non-Israeli, which includes dual-use equipment, services and/or know-how (equipment, services and/or know-how that can be used for civilian or defensive purposes such as our cybersecurity solutions) that is specified in the list of Goods and Dual-Use Technology annexed to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, if intended for defense use or defense user only, or is specified under Israeli legislation. Similar issues could arise under the U.S. defense/military export controls under the Arms Export Control Act and the International Traffic in Arms Regulations.

***Requirements associated with being a public company in the United States require significant resources and management attention.***

Requirements associated with being a public company in the United States require significant resources and management attention. We are subject to certain reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, and the other rules and regulations of the Securities and Exchange Commission, or the SEC, and the New York Stock Exchange, or the NYSE. We are also subject to various other regulatory requirements, including under the Sarbanes-Oxley Act. We expect these rules and regulations to continue to increase our legal, accounting and financial compliance costs and to continue to make some activities more time-consuming and costly. We cannot predict or estimate the amount of additional costs we will continue to incur as a public company or the timing of such costs.

In the first quarter of 2019, we implemented a new ERP system to provide for greater depth and breadth of functionality and effectively manage our business data, communications, operations and other business processes. A failure of this system to perform as we anticipate may result in transaction errors, processing inefficiencies and sales losses, may harm our ability to fulfill our contractual and performance obligations, may harm our ability to accurately forecast sales demand and file reports with the SEC on a timely and accurate basis. In addition, due to the systemic internal control features within ERP systems, we may experience difficulties that may affect our internal control over financial reporting, which may create a significant deficiency or material weakness in our overall internal controls. The risks associated with a new ERP system are greater for us as we plan to expand our operations.

In addition, complying with these rules and regulations and the increasingly complex laws pertaining to public companies requires substantial attention from our senior management, which could divert their attention away from the day-to-day management of our business. These cost increases and the diversion of management’s attention could disrupt our operations and materially and adversely affect our business, financial condition and results of operations. We will also need to continue to hire additional personnel to support our financial reporting function, and may face challenges in doing so.

***We are subject to governmental export and import controls that could subject us to liability in the event of non-compliance or impair our ability to compete in international markets.***

We incorporate encryption capabilities into certain of our products and these products thus may be subject to U.S. export control requirements. We are also subject to Israeli regulations controlling the use, import and export of encryption technology since our product development initiatives are primarily conducted in Israel. In December 2013, regulations under the Wassenaar Arrangement for the first time included a chapter on cyber-related matters. We believe that our products do not fall under this chapter; however, in the future we may become subject to this regulation or similar regulations, which would limit our sales and marketing activities and could therefore have an adverse effect on our results of operations. We have satisfied U.S. and Israeli export control requirements to export our products to most customers and jurisdictions outside of the United States and Israel, and we have satisfied other provisions of Israeli law governing the use of encryption technology. If the applicable U.S. and Israeli requirements regarding the export of encryption software or technology change or if we change the encryption means in our products or technology, we may need to satisfy additional requirements in the United States or Israel. Furthermore, various other countries regulate the import of certain encryption products and technology, including import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers’ ability to implement our products in those countries.

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

In addition, in the future we may be subject to defense-related export controls. For example, currently our solutions are not subject to supervision under the Israeli Defense Export Control Law, 5767-2007, or the Import and Export Decree (Export Control over Dual Use Goods, Services and Technology), 5766-2006, but if the definitions of regulated cybersecurity are changed and our products are becoming classified as defense-related, we would become subject to such regulation. In particular, under the Defense Export Control Law, an Israeli company may not conduct “defense marketing activity” without a defense marketing license from the Israeli ministry of defense and may be subject to a requirement to obtain a specific license from the Israeli ministry of defense for any export of defense-related products, services and/or know-how. The definition of defense marketing activity is broad and includes any marketing of “defense equipment, services and/or know-how” outside of Israel or to a non-Israeli, which includes dual-use equipment, services and/or know-how (equipment, services and/or know-how that can be used for civilian or defensive purposes such as our cybersecurity solutions) that is specified in the list of Goods and Dual-Use Technology annexed to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, if intended for defense use or defense user only, or is specified under Israeli legislation. Similar issues could arise under the U.S. defense/military export controls under the Arms Export Control Act and the International Traffic in Arms Regulations.

### **Risks Related to Our Intellectual Property and Proprietary Rights**

***If we are unable to adequately protect our proprietary technology and intellectual property rights, our business could suffer substantial harm.***

Our commercial success depends, in part, on our ability to protect our core technologies and other intellectual property assets. We rely on a combination of trade secrets, copyright and trademark laws, confidentiality procedures, technical know-how and continuing innovation to protect our intellectual property and maintain our competitive advantage.

Our software and other proprietary information are protected by copyright on creation. Copyright registrations, which have so far not been necessary, may be sought on an as-needed basis. We also control access to and use of our proprietary software, proprietary technology and other confidential information through the use of internal and external controls, including contractual agreements containing confidentiality obligations with our employees, independent consultants, independent contractors, professional services team, partners and customers. Our confidentiality agreements are designed to protect our proprietary information, and the clauses requiring assignment of inventions are designed to grant us ownership of technologies that are developed through our relationship with the respective counterparty. Despite our efforts to protect our trade secrets and proprietary rights through intellectual property rights, confidentiality agreements and licenses (including non-disclosure and invention assignment agreements), unauthorized parties may still copy or otherwise obtain and use our intellectual property and technology.

In addition, we seek to protect our intellectual property by filing Israeli, U.S. and other foreign patent applications related to our proprietary technology. As of December 31, 2020, we had 14 issued patents in the United States and five issued patents in Israel. We may file additional patent applications in the future. In order to benefit from the protection of patents and other intellectual property rights, we must monitor and detect infringement and pursue infringement claims in certain circumstances in relevant jurisdictions, all of which are costly, time-consuming and uncertain. We may choose not to seek patent protection for certain innovations or in certain jurisdictions. Furthermore, the scope of our issued patents may be insufficient, and they may not provide us with any competitive advantages. Our patents and other intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. In addition, the issuance of a patent does not guarantee that we have an absolute right to practice the patented invention. As a result, we may not be able to obtain adequate protection or effectively enforce our issued patents or other intellectual property rights.

We cannot assure you that the steps taken by us will deter or prevent infringement or misappropriation of our intellectual property or technology. In addition, the laws of some foreign countries where we operate do not protect our intellectual property and technology to as great an extent as the laws of the United States, and many foreign countries do not enforce these laws as diligently as government agencies and private parties in the United States.

***We may be subject to intellectual property rights claims by third parties, which may be costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.***

Companies in the software and technology industries, including some of our current and potential competitors, own large numbers of copyrights, trademarks, trade secrets and patents, and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property rights. From time to time, third parties may assert their patent, copyright, trademark and other intellectual property rights against us, our channel partners or our customers.

Successful claims of infringement or misappropriation by a third-party could prevent us from using or distributing certain products or performing certain services or could require us to pay substantial damages (including, for example, treble damages if we are found to have willfully infringed patents and increased statutory damages if we are found to have willfully infringed copyrights), royalties or other fees. Such claims also could require us to cease making, licensing or using solutions that are alleged to infringe or misappropriate the intellectual property of others, to expend additional development resources to attempt to redesign our products or services or otherwise to develop non-infringing technology, to enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or intellectual property rights, and to indemnify our partners and other third parties, including our customers and channel partners whom we typically indemnify against such claims. Even if third parties may offer a license to their intellectual property, the terms of any offered license may not be acceptable, and the failure to obtain a license or the costs associated with any license could cause our business, results of operations or financial condition to be materially and adversely affected.

We indemnify our channel partners and customers against claims that our products infringe the intellectual property rights of third parties. Defending against claims of infringement or being deemed to be infringing the intellectual property rights of others could impair our ability to innovate, develop, distribute and sell our current and planned products and services. If we are unable to protect our intellectual property and technology and ensure that we are not violating the intellectual property rights of others, we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time and effort required to create the innovative products that have enabled us to be successful to date.

#### **Risks Related to Our Personnel**

***We have undergone a recent change to our senior management team and if we are unable to integrate new members of our senior management team, or if we lose the services of any of our senior management or other key personnel, our business, operating results, and financial condition could be adversely affected.***

In January 2021, Kevin Maloney resigned from his role as Senior Vice President of Global Sales. Raymond Brancato has been appointed as our Chief Revenue Officer, with Mr. Maloney assisting with the transition through the end of February 2021. This or any other significant leadership change or senior management transition involves inherent risk and any failure to ensure a smooth transition could hinder our strategic planning, business execution and future performance. In particular, this or any future leadership transition may result in a loss of personnel with deep institutional or technical knowledge, and has the potential to disrupt our operations and relationships with employees and customers due to added costs, operational inefficiencies, decreased employee morale and productivity and increased turnover. We must successfully integrate our new leadership team member within our organization to achieve our operating objectives.

***If we do not effectively expand, train and retain our sales force, we may be unable to acquire new customers or sell additional products and services to existing customers, and our business will suffer.***

Our future success depends, in part, on our ability to expand, train and retain our sales force. Our inability to attract or retain qualified personnel or delays in hiring required sales personnel may seriously harm our business, financial condition and results of operations. Any of our employees may terminate their employment at any time, subject to certain notice requirements. Our ability to attract and retain highly skilled personnel is critical to our future success. Similarly, recently a growing number of Israeli technology companies went public, or elected to initiate the process of going public, which in turn triggered a significant uptick in recruitment efforts, which threatens our ability to maintain our employees and recruit new talent.

In addition, there is intense competition for individuals with sales training and experience. The training and integration of a large number of sales and marketing personnel in a short time requires the allocation of significant internal resources. We invest significant time and resources in training new sales force personnel to understand our solutions and growth strategy. However, there is no guarantee that our recent hires and planned new hires will become as productive as we expect or require, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets in which we currently operate or where we seek to conduct business. Our failure to hire a sufficient number of qualified sales force members and train them to operate at target performance levels may materially and adversely impact our projected growth rate.

***Our ability to enhance our products may be harmed if we are unable to attract and retain sufficient research and development personnel, and if we are unable to generate an adequate return on our investment in research and development.***

Our ability to enhance our products may be harmed if we are unable to attract and retain sufficient engineers and research and development personnel. Our principal research and development activities are conducted from our headquarters in Israel, and we face significant competition for suitably skilled engineers and research and development personnel in this region, where the availability of such personnel is limited. We also have a number of employees that work as developers in Bucharest, Romania in order to benefit from the significant pool of talent that is more readily available in this market. Larger companies with whom we compete may expend more resources than we do on employee recruitment and may be able to offer more favorable compensation and incentive packages than us. If we cannot attract or retain a sufficient number of skilled research and development employees, our business, prospects and results of operations could be adversely affected.



In order to remain competitive, we expect to continue to dedicate significant financial and other resources to expand upon our research and development teams to assist in developing new solutions, applications and enhancements to our existing products and platforms.

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

Our business depends on the continued services and performance of our two founders, Reuven Kitov, our Chief Executive Officer and Chairman of the Board of Directors, and Reuven Harrison, our Chief Technology Officer and a director, due to their relevant experience and skills, to execute on our business plan, and to identify and pursue new opportunities and product innovations. We do not carry key man life insurance on either of Mr. Kitov or Mr. Harrison and, even if we did, such coverage would likely be insufficient to compensate us for the loss of their services due to their industry experience and understanding of our business model. The loss of services of either of Mr. Kitov or Mr. Harrison could significantly delay or prevent the achievement of our development and strategic objectives.

***Our corporate culture has contributed to our success, and if we cannot maintain this culture moving forward, including as a result of COVID-19 and related response measures, we could lose the innovation, creativity and teamwork fostered by our culture, which could adversely affect our business.***

We believe that our corporate culture has been and will continue to be a key contributor to our future success. As a result of COVID-19 and related response measures, we have transitioned our employees to remote working arrangements and temporarily closed and/or otherwise implemented hybrid remote-work with limited onsite presence in our offices worldwide, which could negatively affect our culture. We continue to plan for the eventual return of employees to our offices, but the working arrangements when we return to the office may differ from the arrangements before COVID-19; we expect that some of our employees may continue to work from home full-time or part-time. The full or partial return to in-office work and the potential transition to permanent remote working arrangements for some employees may result in a deterioration of our corporate culture and other unforeseen challenges. Any failure to preserve our culture could negatively affect our ability to innovate and operate effectively.

In addition, we plan to continue to expand our international operations, which may affect our culture as we seek to find, hire and integrate additional international employees while maintaining our corporate culture. From December 31, 2016 to December 31, 2020, we increased the size of our workforce by 118 employees in Israel and by 157 employees in other countries, representing a 107% increase, and we expect to continue to hire new employees in order to support our growth plans. If we do not continue to maintain our corporate culture as we grow, we may be unable to continue to foster the innovation, integrity and collaboration we believe we need to support our growth. Our anticipated headcount growth, international expansion and our transition from a private company to a public company may result in a change to our corporate culture, which could adversely affect our business.

#### **Risk Related to Our Internal Controls**

***If we fail to implement and maintain effective internal control over financial reporting, we may be unable to report our financial results accurately or meet our reporting obligations.***

We are required to maintain internal control over financial reporting and to report any material weakness in those controls. In connection with the issuance of our consolidated financial statements for each of the years ended December 31, 2017, 2018 and 2019, we identified a material weakness in our internal control over financial reporting that we subsequently remedied. If we identify future material weakness in our internal control over financial reporting or are unable to certify that our internal control over financial reporting is effective pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we could lose investor confidence in the accuracy and completeness of our financial reports, which could harm our business, the price of our ordinary shares and our ability to access the capital markets.

#### **Risks Related to Our Ordinary Shares**

***Our share price has been and will likely continue to be volatile, and you may lose all or part of your investment.***

Since our initial public offering on April 11, 2019, our ordinary shares have traded as high as \$31.04 per share and as low as \$5.79 per share through December 31, 2020. On February 19, 2021, the last reported sale price of our ordinary shares was \$12.09 per share.

In addition, the market price of our ordinary shares could be highly volatile and may fluctuate substantially as a result of many factors, including:

- actual or anticipated fluctuations in our results of operations;

- variance in our financial performance from the expectations of market analysts;
- announcements by us or our competitors of significant business developments, changes in service provider relationships, acquisitions or expansion plans;
- changes in the prices of our products and services;
- our involvement in litigation;
- our sale of ordinary shares or other securities in the future;
- market conditions in our industry;
- changes in key personnel;
- the trading volume of our ordinary shares;
- changes in the estimation of the future size and growth rate of our markets; and
- general economic and market conditions, including with respect to COVID-19.

In addition, the stock markets have experienced extreme price and volume fluctuations. Broad market and industry factors may materially harm the market price of our ordinary shares, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. For example, we are subject to class action lawsuits in the Supreme Court of the State of New York and the Southern District of New York, alleging federal securities law violations in connection with our initial public offering and additionally, for the federal court claim, our secondary public offering. Based on information currently available and the current stage of the litigation, we are unable to reasonably estimate a possible loss or range of possible losses, if any, with regard to these claims. See "Item 8 A. Financial Information—Consolidated Financial Statements and Other Financial Information—Legal Proceedings." Low trading volume may also increase the price volatility of our ordinary shares. A thin trading market could cause the price of our ordinary shares to fluctuate significantly more than the stock market as a whole.

***An active trading market for our ordinary shares may not continue to develop or be sustained.***

In April 2019, we completed our initial public offering. Prior to our initial public offering, there was no public market for our ordinary shares. Although we have completed our initial public offering and our ordinary shares are listed and trading on the NYSE, an active trading market for our ordinary shares may not continue to develop or be sustained, which may impair your ability to sell your ordinary shares at the time you wish to do so or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your ordinary shares. An inactive market may also impair our ability to raise capital by selling our ordinary shares and may impair our ability to acquire other companies by using our ordinary shares as consideration.

***A small number of significant beneficial owners of our shares have a significant influence over matters requiring shareholder approval, which could delay or prevent a change of control.***

As of February 19, 2021, the largest beneficial owners of our shares, entities and individuals affiliated with Marker LLC ("Marker") and Catalyst Private Equity Partners (Israel) II, Limited Partnership ("Catalyst") owned 12.2% and 8.7% of our ordinary shares, respectively. As a result, these shareholders individually or collectively could exert significant influence over our operations and business strategy and would have sufficient voting power to influence the outcome of matters requiring shareholder approval. These matters may include:

- the composition of our board of directors, which has the authority to direct our business and to appoint and remove our officers;
- approving or rejecting a merger, consolidation or other business combination;
- raising future capital; and
- amending our articles of association, which govern the rights attached to our ordinary shares.

For example, on December 14, 2020, each of Marker and Catalyst separately filed a Schedule 13D with the SEC where they indicated that they intend to engage the Company in order to discuss opportunities to maximize shareholder value, including, but not limited to, the potential sale of all or a portion of their respective investments in the Company or strategic transactions involving the Company.

This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our ordinary shares that might otherwise give investors the opportunity to realize a premium over the then-prevailing market price of our ordinary shares. This concentration of ownership may also adversely affect our share price. Further, our amended and restated articles of association contain provisions that could make it difficult or expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and board of directors even if such a transaction would be beneficial to our shareholders. We also have a staggered board of directors that could make it more difficult for shareholders to change the composition of our board of directors in any one year. These anti-takeover provisions could substantially impede the ability of public shareholders to change our management or board of directors.

***As a foreign private issuer whose shares are listed on the NYSE, we may follow certain home country corporate governance practices instead of otherwise applicable NYSE requirements, which may, in the future, result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers.***

As a foreign private issuer whose shares are listed on the NYSE, we may follow certain home country corporate governance practices instead of otherwise applicable NYSE requirements for U.S. domestic issuers. For example, foreign private issuers are permitted to follow home country practices with regard to director nomination procedures and the approval of compensation of officers. Additionally, foreign private issuers are not required to maintain a board comprised of a majority of independent directors. Foreign private issuers are also exempt from NYSE rules that require shareholder approval prior to (i) the adoption or amendment of an equity compensation plan or (ii) the issuance of ordinary shares, or securities convertible into or exercisable for ordinary shares, in private offerings in excess of 20% of a company's outstanding ordinary shares or voting power, as well as other private offerings to related parties. However, notwithstanding our ability to follow the corporate governance practices of our home country, Israel, we have elected to comply with NYSE corporate governance requirements that are applicable to U.S. domestic issuers. Nevertheless, we may, in the future, decide to rely on foreign private issuer exemptions and follow Israeli home country governance practices in lieu of complying with some or all NYSE corporate governance requirements, which may provide less protection to our investors than is accorded to investors of domestic issuers. See "Item 6.C. Board Practices—Corporate Governance Practices."

***As a foreign private issuer, we are not subject to the provisions of Regulation FD or U.S. proxy rules and are exempt from filing certain reports required pursuant to the Exchange Act***

As a foreign private issuer, we are exempt from a number of requirements under U.S. securities laws that apply to public companies that are not foreign private issuers. In particular, we are exempt from the rules and regulations under the Exchange Act, related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual and current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act and we are generally exempt from filing quarterly reports on Form 10-Q containing unaudited financial and other specified information with the SEC under the Exchange Act. We are also exempt from the provisions of Regulation FD, which prohibits issuers from making selective disclosure of material nonpublic information to, among others, broker-dealers and holders of a company's securities under circumstances in which it is reasonably foreseeable that the holder will trade in such company's securities on the basis of the information. Even though we intend to comply voluntarily with Regulation FD, these exemptions and leniencies will reduce the frequency and scope of information and protections to which you are entitled as an investor.

For so long as we qualify as a foreign private issuer, we are not required to comply with the proxy rules applicable to U.S. domestic filers, including the requirement applicable to emerging growth companies to disclose the compensation of our chief executive officer and other two most highly compensated executive officers on an individual, rather than an aggregate, basis. Nevertheless, regulations promulgated under the Israeli Companies Law 5759-1999, or the Companies Law, require us to disclose in the proxy statement for the annual general meeting of our shareholders (or to include a reference therein to other previously furnished public disclosure) the annual compensation of our five most highly compensated executive officers on an individual, rather than an aggregate, basis. This disclosure will not be as extensive as that required of a U.S. domestic issuer. See "Item 6.B. Compensation—Compensation of Directors and Executive Officers."

In order to maintain our current status as a foreign private issuer, either (i) more than 50% of our outstanding voting securities must be directly or indirectly owned of record by non-residents of the United States or (ii)(a) a majority of our executive officers or directors may not be U.S. citizens or residents, (b) more than 50% of our assets cannot be located in the United States and (c) our business must be administered principally outside the United States. In the event U.S. residents directly or indirectly own more than 50% of our outstanding voting securities, we will cease to qualify as a foreign private issuer if we do not meet the requirements set forth in (ii) above.

Although we have elected to comply with certain U.S. regulatory provisions, our loss of foreign private issuer status would make such provisions mandatory. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer would be significantly higher. If we are not a foreign private issuer, we will be required to file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. We would also be required to follow U.S. proxy disclosure requirements, including the requirement to disclose more detailed information about the compensation of our senior executive officers on an individual basis. We may also be required to modify certain of our policies to comply with good governance practices associated with U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we would lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers.

***The market price of our ordinary shares could be negatively affected by future sales of our ordinary shares.***

We have made offerings of our ordinary shares in the past and may do so again in the future. In addition, if our existing shareholders, particularly our largest shareholders, our directors, their affiliates or our executive officers, sell a substantial number of our ordinary shares in the public market, the market price of our ordinary shares could decrease significantly. For instance, if Marker and/or Catalyst determined to sell a portion or all of their holdings in the Company, as disclosed in their respective Schedule 13D filings with the SEC on December 14, 2020, the market price of our ordinary shares could react negatively. The perception in the public market that these shareholders might sell our ordinary shares could also depress the market price of our ordinary shares and could impair our future ability to obtain capital, especially through an offering of equity securities.

As of February 19, 2021, 2,148,289 ordinary shares were reserved for issuance under our equity incentive plans. In addition, our board of directors approved the grant of 1,233,100 RSUs to certain of our employees, which grant became effective on March 1, 2021. Shares issuable under our equity incentive plans have been registered on a Form S-8 registration statement and may be freely sold in the public market upon issuance, except for shares held by affiliates who have certain restrictions on their ability to sell.

***We may have exposure to greater tax liabilities than anticipated.***

We have endeavored to structure our activities in a manner so as to minimize our and our subsidiaries' aggregate tax liabilities. However, we have operations in various taxing jurisdictions, and our tax liabilities in one or more jurisdictions could be more than reported in respect of prior taxable periods and more than anticipated in respect of future taxable periods. In this regard, the amount of income taxes that we pay in future taxable periods could be higher if earnings are lower than anticipated in jurisdictions where lower statutory tax rates apply and higher than anticipated in jurisdictions where higher statutory tax rates apply.

In addition, we have entered into transfer pricing arrangements that establish transfer prices for our intercompany operations. However, our transfer pricing procedures are not binding on the applicable taxing authorities. No official authority in any country has made a binding determination as to whether or not we are operating in compliance with its transfer pricing laws. Accordingly, taxing authorities in any of the countries in which we operate could challenge our transfer prices and require us to adjust them to reallocate our income and potentially to pay additional taxes for prior tax periods. For example, the tax authorities in the United States have increased their focus on transfer pricing procedures, which could result in a greater likelihood of a challenge to our transfer pricing arrangements and the risk that we will be required to adjust them and reallocate our income. Such an adjustment could result in a higher effective tax rate than that to which we are currently subject. We expect that the issue of the validity of our transfer pricing procedures will become of greater importance as we continue our expansion in markets in which we currently have a limited presence and attempt to penetrate new markets. Any change to the allocation of our income as a result of reviews by taxing authorities could have a negative effect on our financial condition and results of operations.

Moreover, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment and the ultimate tax determination is uncertain for many transactions and calculations. Although we believe our estimates are reasonable, our ultimate tax liability may differ from the amounts recorded in our financial statements and may materially adversely affect our financial condition and results of operations in the period or periods for which such determination is made. We have created reserves with respect to tax liabilities where we believe it to be appropriate. However, there can be no assurance that our ultimate tax liability will not exceed the reserves we have created.

The Base Erosion and Profit Shifting, or BEPS, project undertaken by the Organization for Economic Cooperation and Development, or the OECD, may also have adverse consequences on our tax liabilities. The BEPS project contemplates changes to numerous international tax principles, as well as national tax incentives, and these changes, which are being adopted in different manners by individual countries, could adversely affect our income tax liability. Even as countries translate the BEPS recommendations into specific national tax laws, it remains difficult to predict with accuracy the magnitude of any impact that such new rules may have on our financial results.

In addition, the 2017 Tax Cuts and Jobs Act, or the TCJA, made significant changes to the U.S. Internal Revenue Code, including a reduction in the U.S. federal corporate income tax rate from the previous top marginal rate of 35% to a flat rate of 21% and limitations on certain corporate deductions and credits. Also, the TCJA requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the TCJA and significant estimates in calculations and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department and the U.S. Internal Revenue Service, or IRS, continue to interpret and issue guidance on how provisions of the TCJA will be applied and administered. Finally, foreign governments may enact tax laws in response to the TCJA that could result in further changes to global taxation and materially adversely affect our financial position and results of operations.

***U.S. holders that own 10% or more of the vote or value of our ordinary shares may suffer adverse tax consequences if we and/or any of our non-U.S. subsidiaries are characterized as a “controlled foreign corporation,” or a CFC, under Section 957(a) of the U.S. Internal Revenue Code of 1986, as amended, or the Code.***

A non-U.S. corporation is considered a CFC if more than 50% of (i) the total combined voting power of all classes of shares of such corporation entitled to vote or (ii) the total value of the shares of such corporation, is owned, or is considered as owned by applying certain constructive ownership rules, including certain downward attribution rules, by U.S. shareholders (within the meaning of the Code) on any day during the taxable year of such non-U.S. corporation. Certain U.S. shareholders of a CFC generally are required to include currently in gross income such shareholders' share of the CFC's "Subpart F income," a portion of the CFC's earnings to the extent the CFC holds certain U.S. property and a portion of the CFC's "global intangible low-taxed income" (as defined under Section 951A of the Code). Such U.S. shareholders are subject to current U.S. federal income tax with respect to such items, even if the CFC has not made an actual distribution to such shareholders. "Subpart F income" includes, among other things, certain passive income (such as income from dividends, interests, royalties, rents and annuities or gain from the sale of property that produces such types of income) and certain sales and services income arising in connection with transactions between the CFC and a person related to the CFC. "Global intangible low-taxed income" may include most of the remainder of a CFC's income over a deemed return on its tangible assets.

As a result of the ownership of our shares, certain voting arrangements with respect to our shares, and certain changes in the U.S. tax law introduced by the TCJA, we and our non-U.S. subsidiaries may be classified as CFCs in the taxable year ended December 31, 2020 as well as in prior taxable years. These determinations cannot be made with certainty. In the event that we or any of our subsidiaries are a CFC, U.S. holders who hold 10% or more of the vote or value of our ordinary shares may realize adverse U.S. federal income tax consequences, such as current U.S. taxation of Subpart F income and of any such shareholder's share of our or our subsidiaries' accumulated non-U.S. earnings and profits (regardless of whether we make any distributions), taxation of amounts treated as global intangible low-taxed income under Section 951A of the Code with respect to such shareholder and being subject to certain reporting requirements with the IRS. Any such U.S. holder who is an individual generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a U.S. corporation. Investors who are U.S. holders and who hold 10% or more of the vote or value of our ordinary shares should consult their own tax advisors regarding the U.S. tax consequences of acquiring, owning or disposing our ordinary shares and the impact of the TCJA, especially the changes to the rules relating to CFCs.

***U.S. holders of our ordinary shares may suffer adverse tax consequences if we are characterized as a passive foreign investment company, or a PFIC, under Section 1297(a) of the Code.***

Generally, if, for any taxable year, at least 75% of our gross income is passive income, or at least 50% of the average quarterly value of our total gross assets (which generally may be measured in part by the market value of our ordinary shares, which is subject to change) is attributable to assets that produce passive income or that are held for the production of passive income, including cash, we would be characterized as a PFIC for U.S. federal income tax purposes. For purposes of these tests, passive income includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. Additionally, a look-through rule generally applies with respect to 25% or more owned subsidiaries. If we are characterized as a PFIC, U.S. holders of our ordinary shares may suffer adverse tax consequences, including having gains realized on the sale of our ordinary shares treated as ordinary income, rather than capital gain, the loss of the preferential tax rate applicable to dividends received on our ordinary shares by individuals who are U.S. holders and having interest charges apply to distributions by us and to the proceeds of sales of our ordinary shares. In addition, special information reporting may be required. See "Item 10.E. Certain U.S. Federal Income Tax Consequences—Passive Foreign Investment Company Considerations."

The determination of whether we are a PFIC will depend on the nature and composition of our income and the nature, composition and value of our assets from time to time. The 50% passive asset test described above is generally based on the fair market value of each asset, with the value of goodwill and going concern value determined in large part by reference to the market value of our ordinary shares, which may be volatile. If we are a CFC (determined by disregarding certain downward attribution rules) and not publicly traded for the relevant taxable year, however, the test shall be applied based on the adjusted basis of our assets.

Recently adopted Treasury Regulations, or the New Regulations, modify certain of the rules described above. Such modifications include, for example, permitting asset value to be determined more frequently than on a quarterly basis and treating a non-U.S. corporation as publicly traded for a taxable year if the stock of such corporation is publicly traded, other than in *de minimis* quantities, for at least twenty trading days during such taxable year.

The New Regulations generally apply to taxable years of shareholders beginning on or after January 14, 2021. A shareholder, however, may choose to apply such rules for any open taxable year beginning before January 14, 2021, provided that, with respect to a non-U.S. corporation being tested for PFIC status, the shareholder consistently applies certain of the provisions of the New Regulations and certain other Treasury Regulations for such year and all subsequent years. Investors who are U.S. holders should consult their own tax advisors regarding the impact and applicability of the New Regulations.

Based on our determination that our shares are properly treated as being publicly traded for the taxable year ended December 31, 2020 and our estimates of the fair market values of our assets, we believe that we should not be classified as a PFIC with respect to the taxable year ended December 31, 2020. However, this determination is subject to uncertainty.

In particular, the determination of whether we are, or will be, a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. It is possible that the IRS will disagree with the interpretation on which our belief about our PFIC status is based, and no ruling from the IRS concerning our PFIC status has been obtained or is currently planned to be requested. Moreover, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for any subsequent year until after the close of the relevant year. We can therefore make no assurances regarding our PFIC status for any taxable year. Our U.S. counsel expresses no opinion with respect to our PFIC status for the taxable year ended December 31, 2020 or for any other taxable year. We will continue to determine whether we were a PFIC or not for each taxable year and make such determination available to U.S. holders.

The tax consequences that would apply if we were a PFIC in any taxable year would be different from those described above if a U.S. holder were able to make a valid “qualified electing fund,” or QEF, election. We will use commercially reasonable efforts to make available to U.S. holders such information with respect to the company as is necessary for U.S. holders to make QEF elections with respect to the company for any taxable year in which we determine that we are classified as a PFIC. See “Item 10.E. Certain U.S. Federal Income Tax Consequences—Passive Foreign Investment Company Considerations.”

***We are an “emerging growth company,” and the reduced disclosure requirements applicable to emerging growth companies may make our ordinary shares less attractive to investors.***

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, and may remain an emerging growth company for up to five fiscal years after April 10, 2019, the date of our initial public offering. For so long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements, reduced disclosure obligations regarding executive compensation 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 cannot predict whether investors will find our ordinary shares less attractive if we 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 do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our ordinary shares.***

We have never declared or paid any cash dividends on our ordinary shares and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. In addition, our ability to pay cash dividends is currently limited by the terms of our credit agreements, and any future credit agreements may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our ordinary shares. Accordingly, investors must rely on sales of their ordinary shares after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

***Our amended and restated articles of association provide that unless we consent to an alternate forum, the federal district courts of the United States shall be the exclusive forum of resolution of any claims arising under the Securities Act which may impose additional litigation costs on our shareholders.***

Our amended and restated articles of association provide that other than with respect to plaintiffs or a class of plaintiffs which may be entitled to assert in the courts of the State of Israel, the federal district courts of the United States shall be the exclusive forum for the resolution of any claims arising under the Securities Act or the Federal Forum Provision. While the Federal Forum Provision does not restrict the ability of our shareholders to bring claims under the Securities Act, nor does it affect the remedies available thereunder if such claims are successful, we recognize that it may limit shareholders ability to bring a claim in the judicial forum that they find favorable and may increase certain litigation costs which may discourage the filing of claims under the Securities Act against the Company, its directors and officers.

## **Risks Related to Our Incorporation and Location in Israel**

***Our corporate headquarters and principal research and development facilities are located in Israel and, therefore, our business and operations may be adversely affected by political, economic and military conditions in Israel.***

We are incorporated under Israeli law, and our corporate headquarters and principal research and development facilities are located in Israel. In addition, certain of our directors, executive officers and key employees are residents of Israel. Accordingly, political, economic and military conditions in the Middle East in general, and in Israel in particular, directly affect our business, product development and results of operations. In recent years, Israel has been engaged in sporadic armed conflicts with Hamas, an Islamist terrorist group that controls the Gaza Strip, with Hezbollah, an Islamist terrorist group that controls large portions of southern Lebanon, and with Iranian-backed military forces in Syria. In addition, Iran has threatened to attack Israel and may be developing nuclear weapons. Some of these hostilities were accompanied by missiles being fired from the Gaza Strip against civilian targets in various parts of Israel, including areas in which our employees and some of our consultants are located, and negatively affected business conditions in Israel. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect our operations and results of operations. Our corporate headquarters and principal research and development activities are located in the range of missiles that could be fired from Lebanon, Syria or the Gaza Strip into Israel.

As of December 31, 2020, we had 280 employees based in Israel. In addition, many Israeli citizens are obligated to perform several days, and in some cases more, of annual military reserve duty each year until they reach the age of 40 (or older, for reservists who are military officers or who have certain occupations) and, in the event of a military conflict, may be called to active duty. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists. It is possible that there will be military reserve duty call-ups in the future. Our operations could be disrupted by such call-ups, which may include the call-up of members of our management. Such disruption could materially adversely affect our business, prospects, financial condition and results of operations.

Our commercial insurance does not cover losses that may occur as a result of events associated with war and terrorism. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained or that it will sufficiently cover our potential damages. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions and could harm our results of operations.

Further, in the past, the State of Israel and Israeli companies have been subjected to economic boycotts. Several countries still restrict business with the State of Israel and with Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial condition or the expansion of our business. A campaign of boycotts, divestment and sanctions has been undertaken against Israel, which could also adversely impact our business.

On Israel's domestic front there is currently a level of unprecedented political instability. The Israeli government has been in a transitional phase since December 2018, when the Israeli Parliament, or the Knesset, first resolved to dissolve itself and call for new general elections. In 2019, Israel held general elections twice – in April and September – and a third general election was held in March 2020. The Knesset, for reasons related to this extended political transition, has failed to pass a budget for the year 2020, and certain government ministries, which may be critical to the operation of our business, are without necessary resources and may not receive sufficient funding moving forward. During December 2020, the government was unable to pass a budget by the applicable deadline, triggering a snap election expected to take place during March 2021, lurching the country back into a protracted political uncertainty. Given the likelihood that the current political stalemate may not be resolved during the next calendar year, our ability to conduct our business effectively may be adversely affected.

***Exchange rate fluctuations between the U.S. dollar, the New Israeli Shekel, the Euro and other foreign currencies, may negatively affect our future revenues.***

We generate substantially all of our revenues in U.S. dollars. The majority of our operating expenses are incurred in foreign currencies, and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes between the U.S. dollar and the New Israeli Shekel, or the NIS, the Euro and, to a lesser extent, the British Pound. As a result, our financial results may be affected by fluctuations in the exchange rates of currencies in the countries in which our products may be sold. For example, during 2020, we witnessed a strengthening of the average exchange rate of the NIS against the dollar, which increased the dollar value of Israeli expenses. If the NIS strengthens against the dollar, as it did in 2020, the dollar value of our Israeli expenses, mainly personnel and facility-related, will increase. We have entered into forward contracts with major banks to provide partial protection against foreign currency exchange risks resulting from expenses paid in NIS during the year. Although exposure to currency fluctuations to date has not had a material adverse effect on our business, there can be no assurance that our limited hedging transactions will provide sufficient protection and that such fluctuations in the future will not have a material adverse effect on our operating results and financial condition.

***Our operations may be affected by negative labor conditions in Israel.***

With respect to our Israeli employees, Israeli labor laws govern the length of the workday, minimum wages for employees, procedures for hiring and dismissing employees, determination of severance pay, annual leave, sick days, advance notice of termination of employment, equal opportunity and anti-discrimination laws and other conditions of employment. Subject to certain exceptions, Israeli law generally requires severance pay upon the retirement, death or dismissal of an employee, and requires us and our employees to make payments to the National Insurance Institute, which is similar to the U.S. Social Security Administration. Our employees have pension plans that comply with the applicable Israeli legal requirements and we make monthly contributions to severance pay funds for all employees, which cover potential severance pay obligations.

In Israel, we are subject to certain labor statutes and national labor court precedent rulings, as well as to certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations including the Industrialists' Associations. These provisions of collective bargaining agreements are applicable to our Israeli employees by virtue of extension orders issued in accordance with relevant labor laws by the Israeli Ministry of Economy and Industry, and apply our employees even though they are not directly part of a union that has signed a collective bargaining agreement.

The laws and labor court rulings that apply to our employees principally concern minimum wage laws, length of the work day and workweek, overtime payment, procedures for dismissing employees, determination of severance pay, leaves of absence (such as annual vacation or maternity leave), sick pay and other conditions for employment. The extension orders which apply to our employees principally concern mandatory contributions to a pension fund or managers' insurance, annual recreation allowance, travel expenses payment and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums.

***The termination or reduction of tax and other incentives that the Israeli government provides to domestic companies may increase the costs involved in operating a company in Israel.***

The Israeli government currently provides tax and capital investment incentives to domestic companies, as well as grant and loan programs relating to research and development and marketing and export activities. In recent years, the Israeli government has reduced the benefits available under these programs and the Israeli governmental authorities have indicated that the government may in the future further reduce or eliminate the benefits of those programs. We have taken in the past and may take advantage of these benefits and programs again in the future, however, there is no assurance that such benefits and programs will continue to be available to us in the future. If such benefits and programs were terminated or further reduced, it could have an adverse effect on our business, operating results and financial condition.

***Enforcing a U.S. judgment against us and our current directors and executive officers, or asserting U.S. securities law claims in Israel, may be difficult.***

We are incorporated under the laws of the State of Israel. Service of process upon us and upon our directors and executive officers, most of whom reside outside of the United States, and on our auditors, may be difficult to obtain within the United States. Furthermore, because a majority of our assets and most of our directors and executive officers are located outside of the United States, any judgment obtained in the United States against us or any of them may be difficult to collect within the United States.

It may be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws on the basis that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. There is little binding case law in Israel addressing these matters. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law.

***Provisions of our amended and restated articles of association and Israeli law and tax considerations may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and negatively affect the price of our ordinary shares.***

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for certain transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore negatively affect the price of our ordinary shares. For example, under the Companies Law, upon the request of a creditor of either party to a proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, our executive officers and certain other key employees are entitled to certain benefits in connection with a change of control of our company.



Our amended and restated articles of association provide that our directors (other than external directors, if applicable) are elected on a staggered basis, such that a potential acquirer cannot readily replace our entire board of directors at a single annual general shareholder meeting.

Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders, especially for those shareholders whose country of residence does not have a tax treaty with Israel, which exempts such shareholders from Israeli tax. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of a number of conditions, including, in some cases, a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are subject to certain restrictions. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no disposition of the shares has occurred. In order to benefit from the tax deferral, a pre-ruling from the Israel Tax Authority might be required.

***We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.***

We have entered into assignment-of-invention agreements with our research and development employees pursuant to which such individuals agreed to assign to us all rights to any inventions created during or as a result of their employment or engagement with us or in our field of business. A significant portion of our intellectual property has been developed by our employees during the course of their employment by us. Under the Israeli Patent Law, 5727-1967, or the Patent Law, inventions conceived by an employee during the scope of his or her employment with a company and as a result thereof are regarded as “service inventions,” which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Patent Law also provides that if there is no agreement between an employer and an employee with respect to the employee’s right to receive compensation for such “service inventions,” the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law, shall determine whether the employee is entitled to remuneration for his or her service inventions and the scope and conditions for such remuneration. A recent decision by the Committee clarifies that the right to receive consideration for “service inventions” can be waived by the employee and that in certain circumstances, such waiver does not necessarily have to be explicit. In order to determine the scope and validity of such waiver, the Committee will examine, on a case-by-case basis, the general contractual framework between the parties, using interpretation rules of the general Israeli contract laws. Further, the Committee has not yet determined one specific formula for calculating this remuneration (but rather uses the criteria specified in the Patent Law). Although our employees have agreed to assign to us service invention rights and have specifically waived their right to receive any special remuneration for such assignment beyond their regular salary and benefits, we may face claims that the assignment is not enforceable or demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current and former employees, or be forced to litigate such claims, which could negatively affect our business.

***The Israeli government tax benefits that we currently are entitled to receive require us to meet several conditions and may be terminated or reduced in the future.***

Some of our operations in Israel may entitle us to certain tax benefits under the Israeli Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law, once we are profitable. If we do not meet the requirements for maintaining these benefits, they may be reduced or canceled and the relevant operations would be subject to Israeli corporate tax at the standard rate, which is set at 23% in 2020 and thereafter. In addition to being subject to the standard corporate tax rate, we could be required to refund any tax benefits that we have already received, plus interest and penalties thereon. Even if we continue to meet the relevant requirements, the tax benefits that our current “Beneficiary Enterprise” is entitled to may not be continued in the future at their current levels or at all. If these tax benefits were reduced or eliminated, the amount of taxes that we pay would likely increase, as all of our operations would consequently be subject to corporate tax at the standard rate, which could adversely affect our results of operations. Additionally, if we increase our activities outside of Israel, for example, by way of acquisitions, our increased activities may not be eligible for inclusion in Israeli tax benefits programs.

***Our investors’ rights and responsibilities as shareholders are, and will continue to be, governed by Israeli law, which differs in some material respects from the rights and responsibilities of shareholders of U.S. companies.***

The rights and responsibilities of the holders of our ordinary shares are governed by our amended and restated articles of association and by Israeli law. These rights and responsibilities differ in some material respects from the rights and responsibilities of shareholders in U.S. corporations. For example, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards such company and its shareholders, and to refrain from abusing its power in such company, including voting at a general meeting of shareholders on matters such as amendments to a company’s articles of association, increases in a company’s authorized share capital, mergers and acquisitions and related party transactions requiring shareholder approval. In addition, a shareholder who is aware that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. There is limited case law available to assist us in understanding the nature of these duties or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

***Our amended and restated articles of association provide that unless the Company consents otherwise, the Tel Aviv District Court (Economic Division), Israel shall be the sole and exclusive forum for substantially all disputes between the Company and its shareholders under the Companies Law and the Israeli Securities Law, which could limit its shareholders ability to bring claims and proceedings against, as well as obtain favorable judicial forum for disputes with the Company, its directors, officers and other employees.***

The Tel Aviv District Court (Economic Division), Israel shall be the exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of fiduciary duty owed by any director, officer or other employee of the Company to the Company or the Company's shareholders or (iii) any action asserting a claim arising pursuant to any provision of the Companies Law or the Israeli Securities Law. This exclusive forum provisions is intended to apply to claims arising under Israeli Law and would not apply to claims brought pursuant to the Securities Act or the Exchange Act or any other claim for which federal courts would have exclusive jurisdiction. Such exclusive forum provision in our amended and restated articles of association will not relive the Company of its duties to comply with federal securities laws and the rules and regulations thereunder, and shareholders of the Company will not be deemed to have waived the Company's compliance with these laws, rules and regulations. This exclusive forum provision may limit a shareholders ability to bring a claim in a judicial forum of its choosing for disputes with the Company or its directors or other employees which may discourage lawsuits against the Company, its directors, officers and employees.

#### **General Risk Factors**

***If securities or industry analysts cease to publish research or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.***

The trading price for our ordinary shares is affected by any research or reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us or our business publish inaccurate or unfavorable research about us or our business, and in particular, if they downgrade their evaluations of our ordinary shares, the price of our ordinary shares would likely decline. If one or more of these analysts cease coverage of our business, we could lose visibility in the market for our ordinary shares, which in turn could cause our share price to decline.

***We 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 and in order to remain competitive, we may acquire or make investments in complementary companies, products or technologies. However, we have not made any acquisitions to date, and as a result, our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner is unproven. We may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by our customers, analysts and investors. In addition, if we are unsuccessful at integrating such acquisitions or the technologies associated with such acquisitions, our revenues and results of operations could be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology or personnel or accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition or the value of our ordinary shares. The sale of equity or issuance of debt to finance any such 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.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

#### Our History

The legal name of our company is Tufin Software Technologies Ltd. and we are organized under the laws of the State of Israel. We were founded in 2005 with the goal of introducing a centralized security management layer that analyzes, defines and implements enterprise-specific security policies. In April 2019, we completed an initial public offering on the NYSE. We believe we were the first company to introduce security policy automation solutions with SecureChange and SecureApp, and we believe our position as a market leader reinforces our brand and supports our position as one of the most prominent players in the increasingly important security policy management market. Our Tufin Orchestration Suite, a comprehensive policy management platform, is currently comprised of four products: SecureTrack, SecureChange, SecureApp and, most recently, SecureCloud. Additionally, we provide a set of extensions and applications for the suite through the Tufin Marketplace.

We are a company limited by shares organized under the laws of the State of Israel. We are registered with the Israeli Registrar of Companies. Our registration number is 51-362739-8. Our principal executive offices are located at 5 HaShalom Road, ToHa Tower, Tel Aviv 6789205, Israel, and our telephone number is +972 (3) 612-8118. Our website address is [www.tufin.com](http://www.tufin.com). Information contained on, or that can be accessed through, our website does not constitute a part of this annual report and is not incorporated by reference herein. We have included our website address in this annual report solely for informational purposes. Our SEC filings are available to you on the SEC's website at <http://www.sec.gov>. This site contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The information on that website is not part of this annual report and is not incorporated by reference herein. Our agent for service of process in the United States is Tufin Software North America, Inc., located at 10 Summer Street, Suite 605, Boston, Massachusetts 02110-1292, and its telephone number is +1 (877) 270-7711.

For a discussion of our capital expenditures, see "Item 5. Operating and Financial Review and Prospectus—Liquidity and Capital Resources."

### B. Business Overview

We are pioneering a policy-centric approach to security and information technology ("IT") operations. We transform enterprises' security operations by helping them visualize, define and enforce a unified security policy across complex, heterogeneous IT and cloud environments. Our products govern how individuals, systems and applications are permitted to communicate and provide policy-based security automation, enabling customers to reduce the time to securely implement complex network changes from days to minutes. Our solutions increase business agility, eliminate errors from manual processes and ensure continuous compliance through a single console. Since our inception, our solutions have been purchased by over 2,000 customers in over 70 countries, including approximately 16% of the Global 2000.

Cybersecurity is critical for enterprises of all sizes. As enterprises embrace digital transformation and adopt new technologies such as cloud-based services, software-defined networks, microservices and containers, the IT and cloud environments become increasingly complex and vulnerable to attack. In response to the heightened threat environment, lack of a defined network perimeter and a constantly changing attack surface, enterprises continue to implement additional firewalls, endpoint security, identity and access management and other security solutions. However, we believe most enterprises lack effective and comprehensive security policy management, which results in a trade-off between the necessary security posture and business requirements for speed, agility and innovation.

We believe a new approach to enterprise security is necessary — a data-driven framework centered on policy management and operationalized through policy-based automation, enhancing compliance and security while improving operational efficiency. To address this need, we have developed highly differentiated technology with four main pillars, as described below.

- **Policy-centric approach.** We enable enterprises to visualize, define and enforce a unified security policy that acts as the foundation of governance and control, replacing ad-hoc configurations across fragmented networks.
- **Automated network changes.** We automate the network change process across complex, heterogeneous environments, increasing business agility, enabling faster application deployment and reducing human error.
- **Data-driven insights.** Our approach draws data from across a customer's IT and cloud environments, providing insights on connectivity and end-to-end visibility across the network.
- **Open and extensible framework.** Our open solutions serve as a centralized control layer for our customers' networks and cloud environments, and can connect to a wide range of third-party technologies through application program interfaces, or APIs.

We offer four products that comprise the Tufin Orchestration Suite: SecureTrack, SecureChange, SecureApp and SecureCloud. We also offer a digital platform of applications and extensions through the Tufin Marketplace. SecureTrack, SecureChange and SecureApp enable enterprises to visualize, define and enforce their security policy across heterogeneous networks, both on premise and in the cloud. SecureTrack serves as the foundation of SecureChange and SecureApp. SecureTrack provides visibility across the network and public cloud, and helps organizations define a unified security policy and maintain compliance. SecureChange provides customers with the ability to automate changes across the network and public cloud while maintaining compliance with policy and security standards. SecureApp provides application connectivity management and streamlines communication between application developers and network engineers. SecureCloud provides cloud security policy management for container, microservices and hybrid cloud environments. The Tufin Marketplace provides apps and extensions from Tufin and our community of cybersecurity partners that maximize return-on-investment by enhancing the overall value of security policy management implementations.

We sell our products and services through our sales force, including our field sales team and our inside sales team, which works closely with our global network of over 150 active channel partners as of December 31, 2020. Our channel partners include distributors and resellers, as well as service delivery partners that help customers successfully deploy, configure, customize and maintain our products and services.

For the years ended December 31, 2019 and 2020, our revenues were \$103.3 million and \$100.8 million, respectively, representing year-over-year decrease of 2%. For the years ended December 31, 2019 and 2020, our net loss was \$28.1 million and \$35.4 million, respectively.

### **Impacts from COVID-19**

The global spread of COVID-19 began to accelerate late in March of 2020, and has since continued to spread and adversely affect workforces, economies, and financial markets globally, leading to an economic downturn and continued economic uncertainty. The extensive impact of the pandemic caused by COVID-19 has resulted and will likely continue to result in significant disruptions to the global economy, as well as businesses and capital markets around the world. In an effort to halt the outbreak of COVID-19, a number of countries, states, counties and other jurisdictions have imposed various measures, including but not limited to, voluntary and mandatory quarantines, border closures and travel restrictions, stay-at-home orders, limitations on gatherings, reduced operations and non-essential business closures.

As part of our response to COVID-19, we remained focused on supporting our customers and partners. In addition, we transitioned our employees to remote working arrangements and temporarily closed and/or otherwise implemented hybrid remote-work with limited onsite presence in our offices worldwide. In the early stages of COVID-19, we experienced a slow-down in our business in comparison to 2019. Although we experienced signs of recovery during the second half of 2020, our revenues for the year ended December 31, 2020 decreased compared to the year ended December 31, 2019. In order to mitigate the impact of the uncertainties associated with COVID-19, we initiated certain cost reduction measures, including the reduction of our workforce and compensation costs. In addition, we realized savings as a result of travel restrictions and virtual (rather than in-person) events. Despite such costs savings, our operating loss for the year ended December 31, 2020 increased compared to 2019.

We believe that the impact of COVID-19 on the way organizations operate and its long-lasting effects has increased our long-term opportunity to help our customers protect their data and detect threats, as well as achieve regulatory compliance. Companies around the world now have employees working remotely from potentially vulnerable home networks, accessing critical on-premises data stores and infrastructure through VPNs and sharing information on cloud environments. We believe this practice will likely continue for the foreseeable future or until efforts to contain COVID-19 are successful. As these remote working conditions create vulnerable conditions for cyberattacks, we believe that our products and solutions can help protect data and infrastructure against attackers. Further, we believe that enterprises understand that a data-centric approach to security is critical and that these elevated risks are expected to remain in the long-term.

The extent to which COVID-19 impacts our business going forward will depend on numerous evolving factors that we cannot reliably predict, including the duration and scope of the pandemic, efficiency of available vaccines and the availability of such vaccines to the worldwide population; governmental, business, and individuals' actions in response to the pandemic, and the impact on economic activity including the possibility of a recession or financial market instability. The uncertainty surrounding the containment of COVID-19 could affect management's accounting estimates and assumptions. For a discussion of certain risks associated with COVID-19, please refer to Risk Factors.

## Industry Background

Enterprises that lack a comprehensive security policy are facing challenges in balancing the necessary security and risk posture with their business requirements, leaving security, network and compliance professionals overwhelmed. Several industry trends contribute to operational challenges in managing risk, as set forth below:

- **Increasing frequency and sophistication of cyberattacks.** Enterprises worldwide are under constant security threat from both external cyberattackers and malicious insiders in search of sensitive information and vital systems. Cyberattackers are increasingly able to breach networks and cloud infrastructures, and locate and steal sensitive enterprise data. As a result, numerous enterprise boards are prioritizing and reshaping their cybersecurity approaches.
- **Growing complexity of software-defined networks.** Enterprises have been undergoing a digital transformation. They are rapidly shifting on-premise workloads to cloud environments to meet the changing demands of their markets and customers. To keep pace with this transformation, enterprises design scalable and flexible workloads and connections, which increase network complexity and the velocity of changes. The rise of technologies such as microservices and containers introduces additional complexity. The growing use of these dynamic technologies has raised business expectations on agility and increased the need for a unified security approach across networks, applications and the cloud.
- **Accelerating pace of application development and deployment.** The accelerating pace of business and technological developments requires numerous and continuous application and infrastructure changes. The rise of the DevOps model, which is a set of software development practices that allows applications and features to be rapidly developed and deployed, has led to increased release velocity. Enterprises that use manual change processes struggle to keep pace and lack policy consistency, resulting in an ever-growing backlog of changes, delayed software releases and heightened security exposure.
- **Evolving regulatory and compliance requirements.** Global enterprises need to maintain compliance with a new wave of government regulations, corporate security policies and industry standards related to privacy and cybersecurity. Manual changes to network policy are difficult to track and are more likely to be non-compliant. As a result, enterprises seek cost-efficient security solutions to meet compliance requirements.
- **Legacy security approaches can no longer address cybersecurity threats in the ever-changing IT and cloud environments.** Traditional security policy management approaches address governance and control, but lack critical characteristics such as a unified security policy, automation, scalability, end-to-end visibility and extensibility. We believe a new approach to enterprise security is necessary: a data-driven framework centered on policy management and operationalized through automation.

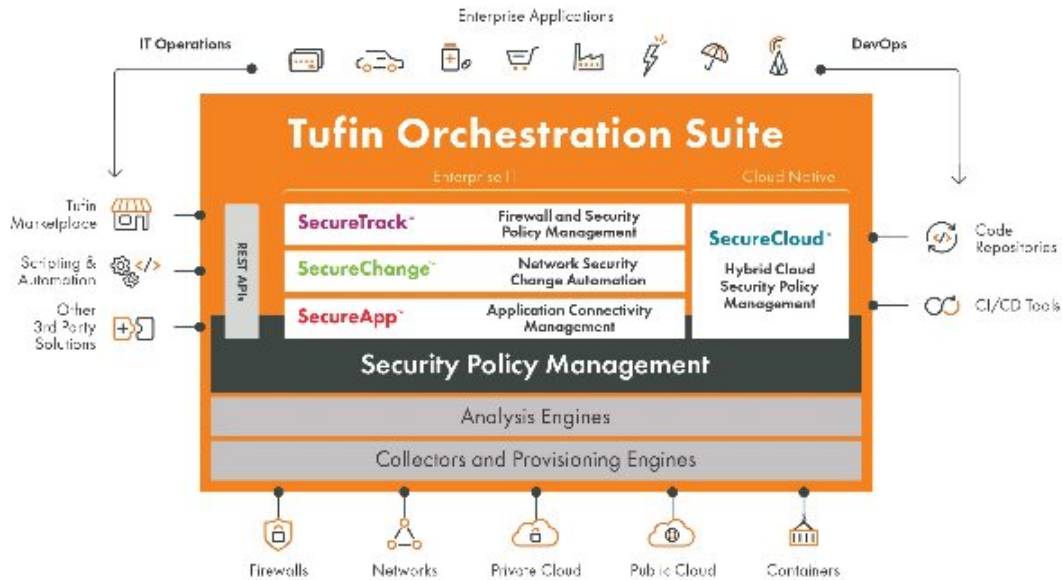
## Our Products

Security and IT operations management has become an increasingly resource-intensive and high-risk task for enterprises. The accelerating pace of business and technological developments require numerous application and infrastructure changes, and enterprise networks are becoming increasingly complex. Enterprises often rely on their in-house network and security teams to manually process change requests, which increases the risk of human error and cybersecurity vulnerabilities and delays the pace of application releases.

Enterprises use our security policy management products to create a unified security policy and give them the ability to implement accurate network changes in minutes instead of days while improving their security posture and business agility. We offer four products that comprise the Tufin Orchestration Suite: SecureTrack, SecureChange, SecureApp and SecureCloud. SecureTrack, SecureChange and SecureApp enable enterprises to unify, visualize and control their security policy across heterogeneous networks, both on premise and in the cloud. SecureCloud provides visibility and control into the security posture of cloud-native and hybrid cloud environments.

In 2020 we launched the Tufin Marketplace, a digital platform where customers can find and deploy apps and extensions that enhance the overall value of their security policy management implementations. Powered by Tufin and our community of cybersecurity partners, the Marketplace provides apps that maximize return-on-investment by integrating security policy data with other security technologies and practices.

To date, the most popular apps developed by Tufin and offered through the Marketplace are the SecureTrack Reports Pack, SecureChange Reports Pack and the Vulnerability Mitigation App.



### Security Policy Automation for the Extended Enterprise

The Tufin Orchestration Suite provides a policy-centric solution for automatically designing, provisioning, analyzing and auditing enterprise security changes. From applications to firewalls, our products provide advanced automation capabilities to increase business agility, eliminate errors stemming from manual processes and ensure continuous compliance through a single interface. Our unified security policy empowers network and IT security teams to effectively safeguard complex, heterogeneous environments through a central security policy, which can be applied over all of their IT and cloud environments and across different platforms.

The majority of our customers initially purchase SecureTrack to monitor a portion of their networks. Initial product deployments frequently expand across networks, departments, divisions and geographies in response to a need for an enterprise-wide approach for security policy management, as well as the need to automate the network change process. Our “land and expand” sales strategy capitalizes on this potential. As we expanded our portfolio of solutions within the Tufin Orchestration Suite, customers have increasingly purchased SecureChange and SecureApp on top of their initial transactions. With the accelerated adoption of cloud infrastructure for application workloads, customers are purchasing SecureCloud to expand their visibility and control through security policy management into cloud-native and hybrid cloud environments.

**SecureTrack.** Enterprises use SecureTrack to understand their enterprise security infrastructure and manage a wide range of devices from a central console. SecureTrack enables security administrators to define and manage a centralized security policy, minimize the attack surface and ensure continuous compliance across the network. SecureTrack also provides a foundation for our customers to use SecureChange and SecureApp, and delivers the following key benefits:

- **Policy definition.** SecureTrack includes our unified security policy, which visualizes, defines and enforces a zone-to-zone segmentation policy that dictates how users, systems and applications can communicate across the entire enterprise. Our unified security policy serves as the security policy framework for the Tufin Orchestration Suite.
- **Security and compliance.** SecureTrack provides monitoring, assessment and alerts on security and compliance risk, ensuring real-time accountability, transparency and consistency with the unified security policy. It also generates a variety of configurable audit reports that support regulatory compliance standards.
- **Visibility.** SecureTrack builds a dynamic topology map of network connectivity across the enterprise and the cloud. It also provides real-time visibility into all security policy configurations and changes. This visibility enables security teams to efficiently manage configuration changes, troubleshoot problems and prepare for audits.

*SecureChange.* SecureChange is the change management and automation component of the Tufin Orchestration Suite. Enterprises use SecureChange to quickly and accurately assess, provision and verify security configuration changes across physical networks and cloud platforms, while maintaining security and compliance. SecureChange delivers the following key benefits:

- *Business agility.* SecureChange increases business agility through security change automation. It automates manual change processes, giving them the ability to implement changes in minutes instead of days.
- *Security and compliance.* SecureChange proactively checks every change request for risk and compliance against the unified security policy before and after changes are implemented. It also maintains comprehensive ticket and process documentation, which reduces the need for painstaking information gathering and analysis before internal and external audits.
- *Control and accuracy.* SecureChange reduces inaccuracies due to human error through automated change design and provisioning for multi-vendor environments.

*SecureApp.* SecureApp is the application management and secure connectivity automation component of the Tufin Orchestration Suite. Enterprises use SecureApp to define, manage and monitor network connectivity for their applications. SecureApp delivers the following key benefits:

- *Visibility and control.* SecureApp provides an intuitive interface to define application-critical connectivity needs. It serves as a central repository of application connectivity requirements and indicates current connectivity status.
- *Business continuity and agility.* SecureApp monitors network device configurations and alerts security administrators to changes that could affect application availability. SecureApp also provides graphical diagnostic tools that help our customers identify, troubleshoot and automatically repair connectivity issues. By providing detailed insight into an application's connectivity needs and status, SecureApp accelerates service deployment, provides business continuity and simplifies network operations.
- *Security and compliance.* SecureApp proactively creates clean, reliable network configurations. It automatically recommends policy rule changes and decommissions unnecessary network access paths that can lead to a security breach.

*SecureCloud.* SecureCloud is a security policy management service for cloud-native, multi-cloud, and hybrid-cloud applications and workloads. Enterprises use SecureCloud to gain visibility into their cloud security posture, establish security policy guardrails, and ensure compliance with these security policies by integrating with DevOps processes and tools to reduce risk and maintain security without compromising speed and agility. SecureCloud delivers the following key benefits:

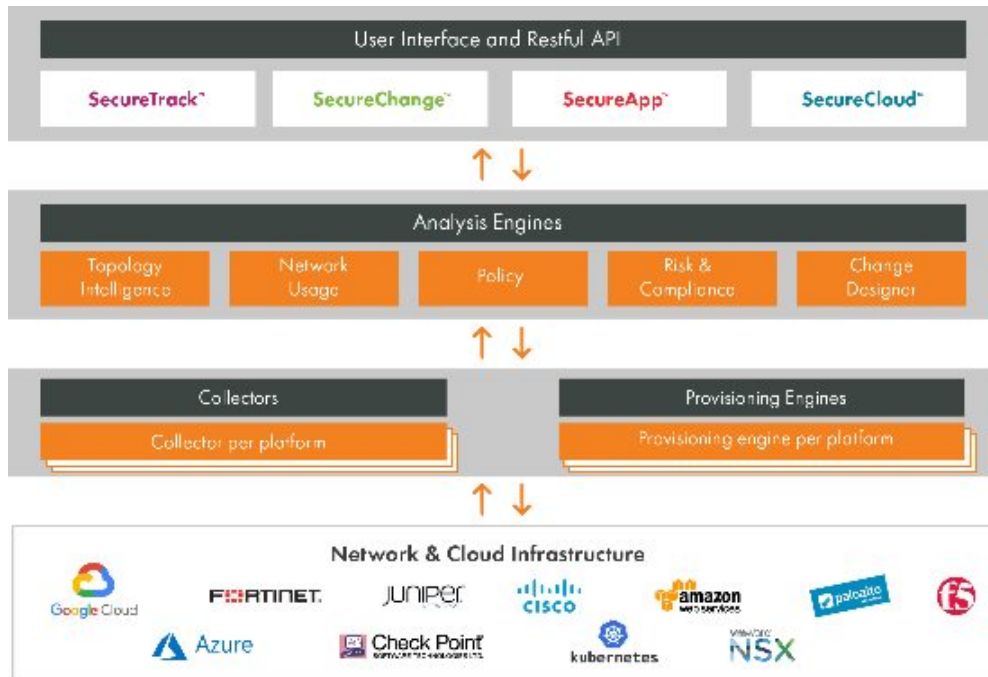
- *Visibility.* SecureCloud provides visibility into the security of application connectivity in the cloud through the assessment of cloud access controls. SecureCloud displays vulnerabilities and overly permissive access paths, ensuring adherence to industry standards and best practices.
- *Security Guardrails.* SecureCloud defines policies to secure application connectivity across multiple cloud and/or Kubernetes platforms. SecureCloud automatically generates the cloud-native control code required to enforce these policies, saving enterprises the cost and overhead of using third-party products that introduce proprietary control points across their cloud environment.
- *Continuous Compliance.* SecureCloud integrates directly into cloud-native application development processes and DevOps CI/CD automation pipelines, ensuring continuous compliance checks of enterprise security policy throughout the entire life-cycle of cloud application development and deployment efforts.
- *Enterprise-wide Security Policy Management.* With SecureCloud, Tufin Orchestration Suite provides a comprehensive platform that enterprises can use to manage security policies across their entire estate, from on-premise to hybrid cloud environments.

*Vulnerability Mitigation App (VMA).* The Tufin Vulnerability Mitigation App (VMA), offered as part of the Tufin Marketplace, enables organizations to prioritize remediation and mitigation efforts by enhancing vulnerability scanner output with network insights. By combining vulnerability measures (e.g. CVSS and severity) with insights into how these vulnerabilities may be accessed and exploited via the network, customers have the context to identify and address vulnerabilities that pose the greatest threat to their critical business assets.

- *Out-of-the-Box Integration.* VMA provides out-of-the-box integration with the most widely used vulnerability management solutions, including Rapid7 Nexpose, Rapid7 InsightVM, Qualys VMDR, Tenable.io, and Tenable.sc.
- *Risk Mitigation.* Tufin VMA automates risk mitigation by implementing network changes that block access to the critical asset until vulnerability remediation efforts can be fully implemented.
- *Comprehensive Dashboard.* VMA also includes a comprehensive dashboard, monitors and measures risk exposure over time, and highlights overall vulnerability exposure and the impact of mitigation and remediation efforts networkwide.

## Our Technology

Our comprehensive security policy management solutions rely on a set of proprietary technologies that provide a high level of security, scalability and performance. Our core technologies, which serve as the foundation of both our network and cloud-based products, include analysis engines, a provisioning engine, Application Programming Interface (“API”) integrations and infrastructure technology.



### Analysis Engines

- **Topology intelligence.** Our topology intelligence engine uses network routing algorithms to calculate the paths between different points on the network and provides our customers with a graphic display of devices and data flows. Network administrators use our topology intelligence to quickly determine which devices and cloud platforms a network connection can traverse, which enables them to automate network path analysis and troubleshoot issues.
- **Network usage analysis engine.** Our network usage analysis engine detects unused elements of a security policy by analyzing network flows and traffic hits over a specified time period. Our technology leverages an automated workflow process to decommission unnecessary access and reduce the attack surface.
- **Policy analysis engine.** Our policy analysis engine calculates the expected connectivity and access behavior of network devices and cloud platforms. Security administrators can use different parameters and logic to determine in real time if supported network devices and cloud security groups will allow or block specific connections.
- **Risk and compliance analysis engines.** Our risk engine proactively analyzes risk by identifying potential security violations, checking the existing configuration or the proposed access changes against the unified security policy. Our compliance analysis engine creates an audit trail in real time by automatically documenting any remedial changes.

Our technology also provides cloud-based security automation for applications developed in CI/CD mode. Our CI/CD vulnerability scanning and compliance validation embeds security at the development and testing stage, and enables our customers’ DevOps teams to quickly identify security issues, reducing the probability of vulnerabilities in production environments.

- **Change designer engine.** Our change designer engine automates enterprise security access requests. It first identifies the connection-relevant network devices and cloud platforms based on topology intelligence, and then recommends the optimal policy change based on information from the policy analysis engine. Our technology provides vendor-specific suggestions that maximize security and performance, while offering accurate configuration changes designed to be intuitive and user friendly.



## ***Provisioning Engine***

- *Change provisioning engine.* Our technology automatically implements policy changes approved by security administrators. Our automated change provisioning engine supports all major network, security and cloud vendors. In zero-touch automation mode, our technology automatically applies recommended policy changes without the need for human intervention.

## ***API Integrations***

- *Extensible APIs.* Our technology features a RESTful API framework to enable extensibility and interoperability with third-party systems, including ticketing and service management systems such as ServiceNow and BMC Remedy. Our professional services team, as well as our customers and partners, use the API framework to supplement the Tufin Orchestration Suite with additional functionality by integrating with the third-party security ecosystem. We integrate with leading network and cloud platforms, such as Check Point, Cisco, Fortinet, Palo Alto Networks, F5 Networks, Forcepoint, Juniper Networks, VMware, AWS, Google Cloud, Microsoft Azure and Kubernetes, to provide vendor agnostic solutions, which is key to our value proposition. In addition, we believe our technology alliance partner program, which is an ecosystem of technology partners who build certified integrations to our platform, helps to expand our common use cases.

## ***Infrastructure Technology***

- *Distributed architecture.* Customers can deploy our products across multiple distributed servers. Rather than monitoring all devices and platforms from a single server, remote collectors monitor local network devices (e.g., firewalls and routers), process the raw data and upload compressed data to a central server over a secure connection. Using a fully distributed architecture, our products can easily scale to meet the demands of large organizations.
- *SaaS architecture.* SecureCloud, is offered as Software-as-a-Service, and is able to scale up and scale out to meet the demands of various customer deployment scenarios and architectures, with built in multi-tenancy and high availability.
- *Tufin Orchestration Suite Aurora.* Aurora is the next generation of the Tufin Orchestration Suite, which runs in microservices on Kubernetes. This architecture will enable us to offer SecureTrack, SecureChange, and SecureApp to our customers as SaaS products in the future. Aurora allows for more agile research and development and gives us the ability to scale out to the largest networks on earth, advancing our leadership in scalability. Also, Aurora provides a refresh and more modern user interface that customers will find easy and intuitive to use.

## **Our Services**

### ***Professional Services***

Our professional services team helps customers with product deployment, integration, customization, optimization, operation and training. We support initial product setup, implementation and configuration, and help customers integrate our products with existing third-party applications and internally developed tools. Our professional services team also helps customers define their unified security policy, model their network topology, configure workflows, discover application connectivity and deliver customized reporting according to their requirements. In addition, we provide technical training so that our customers can use our products with confidence. We also enable our authorized service delivery partners to provide similar professional services.

### ***Maintenance and Support***

We offer several levels of technical support for our products by providing customers with access to our user and partner portal, our knowledge center and our regional support centers. We provide customers with software bug repairs, system enhancements and updates, as well as access to our technical support experts. Our support engineers liaise with our product experts to diagnose and solve our customers' technical challenges. In addition to post-sales support activities, we emphasize service readiness by coordinating with our product management team to define prerequisite product and service quality levels prior to their release. Additionally, our designated support engineers serve as ongoing, accessible customer resources.

## **Sales and Marketing**

### ***Sales***

We sell our products and services through our sales force, including our field sales team and our inside sales team, which works closely with our global network of over 150 active channel partners as of December 31, 2020.

Our highly trained sales force is responsible for overall market development. Our sales force consists of our field sales team, which accounts for most of our sales, and our inside sales team. Our field sales team targets large organizations, which we define as those comprising the Global 2000, while our inside sales team targets mid-market companies that do not belong to the Global 2000. Within our field sales team, our regional field sales representatives develop new business relationships with our key customers, and our channel account managers support and expand existing relationships with our channel partners. Our sales engineers provide technical expertise and support, and architect our solutions to address the business needs of our customers. Our sales cycle usually lasts several months from proof of concept to purchase order, and is often longer for larger transactions. As of December 31, 2020, we had sales personnel in 19 countries. We expect to continue to hire sales personnel in order to support our growth plans.

Our channel partners include distributors and resellers, as well as service delivery partners that help customers successfully deploy, configure, customize and maintain our products and services. In addition, on October 2, 2018, we launched our “Tufin as a Service” program – a consumption-based, pay-per-use services model that enables Managed Security Service Providers, or MSSPs, to offer our security policy management solutions to their customers.

### ***Marketing***

Our marketing strategy is focused on promoting brand awareness through differentiated positioning, messaging and thought leadership. We achieve this by educating the market on effective security policy change management, communicating our product advantages and business benefits, generating leads for our sales force and channel partners, and promoting our brand. We market our products and services as enterprise security policy management solutions for complex networks and cloud-based environments.

We execute our marketing strategy by leveraging a combination of internal marketing professionals, external marketing partners and a network of platform and technology partners. Our internal marketing enterprise is responsible for branding, digital content generation and targeted advertising through active digital channels. We actively drive thought leadership by providing community education through our online technical webinars in multiple regions. We host and sponsor demand-generation events, including our channel and technical partners’ events and our annual worldwide customer conferences, Tufinnovate, as well as local events for specific customers and prospect accounts in multiple regions. In 2020, we hosted the Tufinnovate conferences virtually, and plan to do the same in 2021. Although some of the face-to-face interaction was not possible in a virtual event, we had double the number of attendees in the virtual Tufinnovate conference, compared to the in person Tufinnovate conferences in 2019. Our conferences and events demonstrate our strong commitment to enabling our partners and customers to succeed, and provide an opportunity to create a pipeline for new sales to prospective customers and additional sales to existing customers.

## **Research and Development**

Continued investment in research and development is critical to our business. Our research and development efforts focus primarily on improving our existing products and services with additional innovative features and functionality, as well as developing new products and services. For example, we regularly release enhanced capabilities of the Tufin Orchestration Suite. We believe the timely development of new products, including both on-premise and cloud solutions, is essential to maintaining our competitive position.

In the years ended December 31, 2019 and 2020, our research and development expenses were \$31.6 million and \$35.0 million, respectively. We plan to continue investing significantly in research and development initiatives across our global innovation centers in Tel Aviv, Israel, Karmiel, Israel and Bucharest, Romania. By spreading our research and development team across multiple locations, we increase our access to highly skilled engineering talent, which provides us opportunities for evolution and growth.

## **Intellectual Property**

Our commercial success depends, in part, on our ability to protect our core technologies and other intellectual property assets. We rely on a combination of trade secrets, copyright and trademark laws, confidentiality procedures, technical know-how and continuing innovation to protect our intellectual property and maintain our competitive advantage. Our technical personnel use their skills, knowledge and experience to develop, strengthen and maintain our proprietary position in the security policy automation market. In addition, we seek to protect our intellectual property by filing Israeli, U.S. and other foreign patent applications related to our proprietary technology.

Our software and other proprietary information are protected by copyright on creation. Copyright registrations, which have so far not been necessary, may be sought on an as-needed basis. We also control access to and use of our proprietary software, proprietary technology and other confidential information through the use of internal and external controls, including contractual agreements containing confidentiality obligations with our employees, independent consultants, independent contractors, professional services team, partners and customers. Our confidentiality agreements are designed to protect our proprietary information, and the clauses requiring assignment of inventions are designed to grant us ownership of technologies that are developed through our relationship with the respective counterparty. We also license software from third parties for use in developing our products and for integration into our products, including open source software. Despite our efforts to protect our trade secrets and proprietary rights through intellectual property rights, confidentiality agreements and licenses (including non-disclosure and invention assignment agreements), unauthorized parties may still copy or otherwise obtain and use our intellectual property and technology.

As of December 31, 2020, we had registered three trademarks in the United States, four trademarks in Israel and two trademarks in the European Union, as well as, one published trademark in Israel. As of December 31, 2020, we had 14 issued patents in the United States and five issued patents in Israel.

## **Competition**

The security policy management market in which we operate is relatively new and evolving. We are a leading provider of enterprise security automation and management products. In many cases, our primary competition is in-house, manual, spreadsheet driven processes and home-grown approaches to security management. Our direct competitors include vendors such as AlgoSec, Inc., FireMon, LLC and Skybox Security LLC that offer solutions that compete with all or some of our products or product features. We also indirectly compete with large IT companies that offer a broad array of traditional security management solutions, such as Symantec Corporation and Cisco Systems, Inc., for a share of enterprises' IT security budgets. In the cloud, direct competition to SecureCloud has not fully emerged, although our traditional competitors have added some capabilities in this area. The cloud security vendor landscape is crowded and many company offerings overlap. In particular, we may compete with tools from firewall vendors that provide visibility into cloud access policies for their proprietary platforms. SecureCloud is differentiated from such tools by enabling enterprise buyers to avoid vendor lock-in associated with proprietary enforcement solutions, ultimately having the ability to optimize how they enforce policy and manage costs using a security policy management system across multi-vendor environments.

As our market further develops, we anticipate that competition will increase based on customer demand for security automation and management solutions. Furthermore, we believe enterprises will allocate an increasing portion of their IT security budgets, and specifically security management spending, to operational security and automation solutions.

The principal competitive factors in our market include:

- security change automation;
- multi-vendor integration and heterogeneous network topology;
- application connectivity in modern IT and cloud environments;
- efficacy in provisioned and cloud-native environments;
- suitability for DevOps processes and microservice architectures;
- scalability and overall performance; and
- strong relationships with existing IT vendors.

## **Our Customers**

Since our inception, our solutions have been purchased by over 2,000 customers in over 70 countries, including approximately 16% of the Global 2000. We sell substantially all of our products and services through our global network of channel partners, including distributors and resellers, who then sell to end-user customers. For the years ended December 31, 2019 and 2020, our two largest channel partners accounted for 15% and 9% of our revenues and 15% and 10% of our revenues, respectively. Our agreements with these channel partners provide that each partner agrees to sell and distribute our products within certain territories for one year. These agreements are nonexclusive and non-transferable, and automatically renew unless terminated by either party after providing prior written notice.

When analyzing our business, we refer to end-user customers as our customers throughout this annual report, even if our direct commercial relationship is with a channel partner. Our customers include leading enterprises across a broad range of geographies in a diverse set of industries, including financial services, telecommunications, automotive, manufacturing, energy, healthcare and pharmaceuticals, technology, government, retail and business services.

Our diverse global footprint is evidenced by the fact that, for the year ended December 31, 2020, we generated 54%, 40% and 6% our revenues from customers in the Americas, EMEA and APAC, respectively.

**Properties**

Our corporate headquarters are located in Tel Aviv, Israel in an office consisting of approximately 62,859 square feet, where we employ our primary research and development team and a portion of our support and general administrative teams. The lease for this office expires January 31, 2029 (with an option to extend until January 31, 2034). Our U.S. headquarters are located in Boston, Massachusetts in an office consisting of approximately 3,214 rentable square feet, where we employ a portion of our marketing and general administrative teams. The lease for this office expires in December 31, 2023. On August 28, 2019, we signed a lease for an office in Boston, Massachusetts consisting of approximately 8,982 rentable square feet. We relocated to our new office in Boston during the first quarter of 2020. We also lease an office in Karmiel, Israel (which serves as a research and development site), Akron, Ohio (which hosts the Americas technology support, professional services and inside sales teams) and Reading, England (which hosts the European inside sales team). We believe our facilities are sufficient to meet our current needs and anticipate that suitable additional space will be readily available to accommodate any foreseeable expansion of our operations.

**Seasonality**

We generally expect an increase in business activity as we approach our fiscal year end in December, driven by our customers' buying patterns. We believe that these seasonal trends will continue to affect our quarterly results. Large individual sales have, in some cases, occurred in quarters subsequent to those we anticipated or have not occurred at all. The loss or delay of one or more large transactions in a quarter could impact our anticipated results of operations for that quarter and future quarters for which revenues from that transaction is delayed.

**Legal Proceedings**

See "Item 8.A. Financial Information—Consolidated Financial Statements and Other Financial Information—Legal Proceedings."

### C. Organizational Structure

The legal name of our company is Tufin Software Technologies Ltd. and we are organized under the laws of the State of Israel. We have six wholly-owned subsidiaries:

<u>Name of Subsidiary</u>	<u>Place of Incorporation</u>
Tufin Software North America Inc.	Delaware, United States
Tufin Software Europe Limited	United Kingdom
Tufin Software France SARL	France
Tufin Software Germany GmbH	Germany
Tufin Software Australia Pty Ltd	Australia
Tufin Software SRL	Romania

### D. Property, Plants and Equipment

See “Item 4.B. Business Overview—Properties” for a discussion of property, plants and equipment.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### Company Overview

We are pioneering a policy-centric approach to security and IT operations. We transform enterprises' security operations by helping them visualize, define and enforce a unified security policy across complex, heterogeneous IT and cloud environments. Our products govern how individuals, systems and applications are permitted to communicate and provide policy-based security automation, enabling customers to reduce the time to implement complex network changes from days to minutes. Our solutions increase business agility, eliminate errors from manual processes and ensure continuous compliance through a single console. Since our inception, our solutions have been purchased by over 2,000 customers in over 70 countries, including approximately 16% of the Global 2000.

We generate revenues from sales of our products and associated maintenance and professional services. We primarily sell our software through perpetual license agreements and, to a lesser extent, term-based license agreements. Our products offer the same functionality whether our customers receive them through a perpetual or term-based license. Our agreements with customers for software licenses include maintenance contracts and may also include professional services contracts. Maintenance revenues consist of fees for providing software updates and technical support for our products for a specified term, which is typically one or three years. We offer a portfolio of professional services and extended support contract options to assist our customers with integration, customization, optimization, training and ongoing advanced technical support.

Our goal is to provide significant benefits to customers seeking to enforce enterprise-wide security policies and automate network change process, which we believe will enable us to maximize the lifetime value of our customers. We believe our existing customers serve as a strong source of incremental revenues given our multiple product offerings and the growing complexity of IT and cloud environments and networks. Our products provide customers the flexibility to initially deploy one or more of our products in all or parts of their IT and cloud environments, and further expand deployment as they purchase additional products or cover additional parts of their IT and cloud environments. We believe our "land and expand" sales strategy capitalizes on this potential. We make significant investments in acquiring new customers and expect to achieve a favorable return on investments by maintaining a high level of customer retention, which we define as our maintenance renewal rate. We calculate our maintenance renewal rate by taking the total prior period maintenance revenues from customers that have renewed in the trailing 12-month period and dividing that figure by our total prior period maintenance revenues for all customers with contracts that were up for renewal in the trailing 12-month period. For each of the years ended December 31, 2019 and 2020, our maintenance renewal rate was over 90%. Our new business from existing customers, including new licenses for our products and attached maintenance and professional services contracts, constitutes a significant part of our revenues, accounting for 66% and 71%, of our total revenues from new business in the years ended December 31, 2019 and 2020, respectively.

We believe our diverse global footprint provides a significant growth opportunity. We aim to continue to expand our business globally, particularly in the Americas and EMEA. In the year ended December 31, 2020, we generated 54% of our revenues from customers in the Americas and 40% of our revenues from customers in EMEA.

We expect sales in the Americas to continue to account for a majority of our revenues. Our customers include leading enterprises across a broad range of geographies in a diverse set of industries, including financial services, telecommunications, automotive, manufacturing, energy, healthcare and pharmaceuticals, technology, government, retail and business services. We believe our expansion within the Global 2000 is a key indicator of our market penetration and the value that our products provide to large customers.

We sell our products and services through our sales force, including our field sales team and our inside sales team, which works closely with our global network of over 150 active channel partners as of December 31, 2020. Our highly trained sales force is responsible for overall market development. Our sales force consists of our field sales team, which accounts for most of our sales, and our inside sales team. Our field sales team targets large organizations, which we define as those comprising the Global 2000, while our inside sales team targets mid-market companies that do not belong to the Global 2000. Within our field sales team, our regional field sales representatives develop new business relationships with our key customers, and our channel account managers support and expand existing relationships with our channel partners. Our sales engineers provide technical expertise and support, and architect our solutions to address the business needs of our customers. Our sales cycle usually lasts several months from proof of concept to purchase order, and is often longer for larger transactions. As of December 31, 2020, we had sales personnel in 19 countries.

Our channel partners include distributors and resellers, as well as service delivery partners that help customers successfully deploy, configure and maintain our products and services. We sell substantially all of our products and services through our global network of channel partners, who then sell to end-user customers. When analyzing our business, we refer to end-user customers as our customers throughout this annual report even if our direct commercial relationship is with a channel partner. We consider our channel partners active if they have sold our products or services in the trailing 12-month period.

We integrate with leading network and cloud platforms, such as Check Point, Cisco, Fortinet, Palo Alto Networks, F5 Networks, Forcepoint, Juniper Networks, VMware, AWS, Google Cloud, Microsoft Azure and Kubernetes, to provide vendor agnostic solutions, which is key to our value proposition. In addition, we believe our technology alliance partner program, which is an ecosystem of technology partners who build certified integrations to our platform, helps to expand our common use cases.

For the years ended December 31, 2019 and 2020, our revenues were \$103.3 million and \$100.8 million, respectively, representing year-over-year decrease of 2%.

### **COVID-19 Impacts**

The global spread of COVID-19 began to accelerate late in March of 2020, and has since continued to spread and adversely affect workforces, economies, and financial markets globally, leading to an economic downturn and continued economic uncertainty. The extensive impact of the pandemic caused by COVID-19 has resulted and will likely continue to result in significant disruptions to the global economy, as well as businesses and capital markets around the world. In an effort to halt the outbreak of COVID-19, a number of countries, states, counties and other jurisdictions have imposed various measures, including but not limited to, voluntary and mandatory quarantines, border closures and travel restrictions, stay-at-home orders, limitations on gatherings, reduced operations and non-essential business closures.

As part of our response to COVID-19, as part of our focus on the on the safety and well-being of our employees, we initiated a global work-from-home policy beginning in March 2020 which includes transitioned our employees to remote working arrangements and temporarily closed and/or otherwise implemented hybrid remote-work with limited onsite presence in our offices worldwide. To date, we have not experienced significant disruptions in our operations resulting from our remote working arrangements.

In addition, we adjusted our operations, including transitioning from in-person marketing events to virtual formats, utilizing a virtual sales strategy and minimizing employee travel.

In the early stages of COVID-19, we experienced a slow-down in our business in comparison to 2019. Although we experienced signs of recovery during the second half of 2020, our revenues for the year ended December 31, 2020 decreased compared to the year ended December 31, 2019. In order to mitigate the impact of the uncertainties associated with COVID-19, we initiated certain cost reduction measures, including the reduction of our workforce and compensation costs. In addition, we realized savings as a result of travel restrictions and virtual (rather than in-person) events. Despite such costs savings, our operating loss for the year ended December 31, 2020 increased compared to 2019.

We continue to monitor, assess and respond to the implications of the COVID-19 pandemic on our operations and our customers, partners and suppliers. In addition, we continue to actively evaluate and respond to new developments relating to the evolving COVID-19 pandemic, which has and is expected to result in continued significant global, social and business disruptions.

The extent to which COVID-19 impacts our business going forward will depend on numerous evolving factors that we cannot reliably predict, including the duration and scope of the pandemic, efficiency of available vaccines and the availability of such vaccines to the worldwide population; governmental, business, and individuals' actions in response to the pandemic, and the impact on economic activity including the possibility of a recession or financial market instability. The uncertainty surrounding the containment of COVID-19 could affect management's accounting estimates and assumptions. For a discussion of certain risks associated with COVID-19, please refer to Risk Factors.

### **Key Performance Indicators**

We monitor the following key performance indicators to help us evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies.

- *Number of Customers.* We believe the size of our customer base is an indicator of our market penetration and our net customer additions are an indicator of the growth of our business and future revenue opportunity. We believe we have a significant opportunity to expand our footprint through new installations and displacement of our competitors' solutions. To do so, we plan to continue to grow our sales team, leverage our channel partner relationships and enhance our marketing efforts.

We believe organizations choose us for our customer-first approach, continuing innovation and seamless integration with third-party technologies.

We define a customer as a distinct entity, division or business unit of a company that has purchased our products or services and is eligible to receive maintenance and support. Since our inception, our solutions have been purchased by over 2,000 customers in over 70 countries, including approximately 16% of the Global 2000. As of December 31, 2019 and 2020, we had 1,679 and 1,728 active customers, respectively.

- *Sales to Existing Customers.* We believe our existing customers provide a significant source of revenue growth. We derive an increasing portion of our revenues from existing customers. For example, during the years ended December 31, 2019 and 2020, we generated approximately 66% and 71% of our revenues, respectively, excluding maintenance renewals, from sales to existing customers.

- **Maintenance Renewal Rates.** We believe our maintenance renewal rates are an important metric to measure our ability to provide significant value to our existing customers. We generate incremental maintenance revenues when our customers renew their maintenance contracts. We measure the maintenance renewal rate of our customers over a trailing 12-month period, based on a dollar renewal rate of contracts expiring during that time period. For each of the years ended December 31, 2019 and 2020, our maintenance renewal rate was over 90%. Our key strategies to maintain our renewal rate include continuing to provide more valuable features and network device coverage in our product updates, focusing on the quality and reliability of our customer service and support and ensuring our customers receive value from our products.
- **Sales to Large Organizations.** In the year ended December 31, 2020, large organizations, which we define as those comprising the Global 2000, accounted for 63% of our revenues, compared to 68% of our revenues in the year ended December 31, 2019, in each case excluding maintenance renewals. Sales to large organizations involve a distinct set of opportunities and challenges. Large organizations sales are characterized by longer sales cycles and additional time and resources spent on a potential customer.

For the years ended December 31, 2019 and 2020, the average spend for all customers, excluding maintenance renewals, was \$122,000 and \$102,000, respectively. During those years, the average spend for Global 2000 customers, excluding maintenance renewals, was \$187,000 and \$155,000, respectively; and the average spend for non-Global 2000 customers, excluding maintenance renewals, was \$70,000 and \$67,000, respectively. We define average spend as total sales, excluding maintenance renewals, for the relevant customer group (i.e., all customers, Global 2000 customers or non-Global 2000 customers) divided by the number of customers belonging to such customer group.

- **Seasonality.** We generally expect an increase in business activity in the fourth quarter, driven by our customers' buying patterns. We believe that these seasonal trends will continue to affect our quarterly results. The loss or delay of one or more large transactions in a quarter could impact our anticipated results of operations for that quarter and future quarters for which revenues from that transaction is delayed.
- **Non-GAAP Gross Profit, non-GAAP Operating Income (Loss) and Non-GAAP Net Loss.** We believe that providing non-GAAP financial measures that exclude, as applicable, share-based compensation expense and certain non-recurring costs, as well as, the tax effect of these Non-GAAP adjustments, allows for more meaningful comparisons between our operating results from period to period. These non-GAAP financial measures are an important tool for financial and operational decision-making and for evaluating our operating results over different periods.

We define Non-GAAP gross profit, Non-GAAP operating income (loss) and Non-GAAP net loss as follows:

- Non-GAAP gross profit as gross profit excluding share-based compensation expense.
- Non-GAAP operating income (loss) as operating income (loss) excluding share-based compensation expense, shelf registration costs, one-time expenses associated with the reorganization of one of our subsidiaries and secondary offering costs.
- Non-GAAP net loss as net loss excluding share-based compensation expense, shelf registration costs, one-time expenses associated with the reorganization of one of our subsidiaries, secondary offering costs and the tax effect of these non-GAAP adjustments.

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2020</b>
	<i>(in thousands)</i>	
Gross profit	\$ 83,413	\$ 80,587
Non-GAAP gross profit (1)	84,927	82,611
Operating loss	\$ (27,023)	\$ (33,925)
Non-GAAP operating loss (1)	(15,234)	(18,452)
Net loss	\$ (28,119)	\$ (35,406)
Non-GAAP net loss (1)	(17,054)	(20,634)

- (1) For a reconciliation of non-GAAP gross profit, non-GAAP operating loss and non-GAAP net loss to their most directly comparable GAAP measures, respectively, see "Item 3.A. Selected Financial Data."



Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company's non-cash expense, we believe that providing non-GAAP financial measures that exclude non-cash share-based compensation expense allow for more meaningful comparisons between our operating results from period to period. In addition, we believe that providing non-GAAP financial measures that exclude shelf registration costs, one-time expenses associated with the reorganization of one of our subsidiaries and secondary offering costs allows for more meaningful comparisons between our operating results from period to period since these non-recurring costs are not representative or indicative of our ongoing operations. We also believe that the tax effects related to the non-GAAP adjustments set forth above do not reflect the performance of our core business and would impact period-to-period comparability.

### ***Transition to Subscription-Based Business Model***

In February 2021, we announced our transition to a subscription-based business model. We believe that this strategic initiative will have a positive impact on our business in the long-term and will support our future growth plans. The transition to a subscription-based business model is expected to drive an increase in our recurring revenues, but may result in a decrease in our total potential reported revenues, during the transition period, as the average customer spend on a subscription-based software deal is expected to be lower than a perpetual software deal for the same size infrastructure.

Our subscription license renewal rate is an important parameter that will help us to achieve our long-term goals. Our key strategies to ensure high renewals rates, both for subscription licenses and maintenance agreements, include focusing on the quality and reliability of our product and customer service and support, ensuring our customers receive value from our products, as well as providing valuable software upgrades and enhancements when and if they are available.

- *Annualized recurring revenues.* We consider annualized recurring revenues ("ARR") as a performance indicator which is defined as the annualized value of active term-based subscription license contracts, SaaS contracts and maintenance contracts related to perpetual licenses in effect at the end of a period. Such contracts are annualized by dividing the total contract value by the number of months of its term and multiplying by twelve (12). As of December 31, 2019 and 2020, ARR was approximately \$53 million and \$60 million, respectively. The annualized value of contracts is a legal and contractual determination made by assessing the contractual terms with our customers. ARR is not determined by reference to historical revenues, deferred revenues or any other GAAP financial measure over any period. ARR is not a forecast of future revenues, which can be impacted by contract start and end dates and renewal rates and does not include revenue associated with the sales of perpetual software licenses, hardware or professional services.

### **Components of Statements of Operations**

#### ***Revenues***

We derive our revenues from the following:

*Product Revenues.* We generate product revenues from sales of our software licenses and third-party hardware to new customers and sales of additional licenses and third-party hardware to existing customers. We generate the vast majority of our revenues through sales of software with less than 5% of our revenues generated through sales of third-party hardware. In each of the years ended December 31, 2018, 2019 and 2020, we primarily sold our software through perpetual license agreements and, to a lesser extent, term-based license agreements. As a percentage of total revenues, we expect our product revenues to vary from quarter to quarter based on seasonal and cyclical factors. We are focused on acquiring new customers as well as increasing product revenues from our existing customers.

*Maintenance and Professional Services Revenues.* We generate maintenance and professional services revenues by selling maintenance contracts and, to a lesser extent, by providing professional services to our customers. Maintenance includes software updates and technical support. Our contracts with customers for software licenses include maintenance for a specified term. We recognize revenues associated with maintenance on a straight-line basis over the specified maintenance period. Professional services consist of deployment services for our products, and implementation of our solutions and their integration in the customer's environment.

We recognize revenues associated with professional services as we perform the services. As a percentage of total revenues, we expect our maintenance and professional services revenues to vary from quarter to quarter based on fluctuations in license sales, maintenance renewal rates, professional services attach rates and cyclical factors. The increase in maintenance is attributable to the growth in our software license sales to new and existing customers.

See Note 2 to our consolidated financial statements “Significant Accounting Policies—Revenue recognition” for more information.

### ***Cost of Revenues and Gross Profit***

Our total cost of revenues is comprised of the following:

*Cost of Product Revenues.* Cost of product revenues consist primarily of personnel costs (including share-based compensation) associated with the processing and delivery of our software licenses to customers and, to a lesser extent, the purchase and delivery of third-party hardware, as well as other overhead costs. There is no direct cost of revenues associated with our software products because we deliver our software products electronically. Electronic delivery occurs when we provide the customer with access to the software and license key via a secure portal. Our cost of product revenues is primarily impacted by the number of personnel involved in the delivery of our products, as well as our third-party hardware revenues.

*Cost of Maintenance and Professional Services Revenues.* Cost of maintenance and professional services revenues consist primarily of personnel costs for those responsible for providing maintenance and support and professional services to our global customer base. Such personnel costs consist of salaries, benefits, bonuses and share-based compensation.

Gross profit is total revenues less total cost of revenues. Gross margin is gross profit expressed as a percentage of total revenues. Our gross margin fluctuates from quarter-to-quarter based on the mix of product revenues and maintenance and professional services revenues. We expect our gross margins to continue to fluctuate.

### ***Operating Expenses***

Our operating expenses consist of research and development expenses, sales and marketing expenses and general and administrative expenses. For each category, personnel costs are the most significant component of our operating expenses. Personnel costs consist of salaries and employee benefits (including vacation expenses, bonuses and share-based compensation). Sales commissions account for a significant portion of our sales and marketing compensation costs.

*Research and Development.* Research and development expenses consist primarily of personnel costs attributable to our research and development personnel, subcontractors and consultants, as well as allocated overhead costs. We expense research and development expenses as incurred. We expect to continue to invest in our research and development and other long-term strategic initiatives, as we plan to further strengthen our technology platform and applications and enhance our current and future product and service offerings.

*Sales and Marketing.* Sales and marketing expenses are the largest component of our operating expenses and consist primarily of personnel costs, including variable compensation, as well as travel expenses, marketing and business development costs (including marketing campaigns, tradeshow and recruitment) and allocated overhead costs. We expect sales and marketing expenses will continue to increase in absolute dollars and account for the majority of our operating costs as we expand our international sales and marketing efforts.

*General and Administrative.* General and administrative expenses consist primarily of personnel-related costs, including share-based compensation expense, for our executive, finance, IT, human resources, legal and administrative personnel. General and administrative expenses also include external legal, accounting, directors and officer’s insurance expenses, other professional service fees and allocated overhead. We expect that general and administrative expenses will increase in absolute dollars in the near term as we continue to support the company needs and our operations as a public company, including maintaining compliance with the Sarbanes-Oxley Act and related regulations.

### ***Financial Income (Loss), Net***

Financial income (loss), net, consists primarily of bank charges, interest earned on our cash, cash equivalents restricted bank deposits and marketable securities, amortization of premium or accretion of discount on our marketable securities and foreign currency exchange fluctuations. Foreign currency exchange fluctuations reflect gains or losses related to transactions denominated in currencies other than the U.S. dollar, particularly the NIS, the Euro and the GBP. As a result of our global presence, we expect to continue to incur expenses in currencies other than the U.S. dollar. As such, we expect our exposure to fluctuations in foreign currencies to continue.

## ***Taxes on Income***

The standard corporate tax rate in Israel for 2020 and thereafter was 23%. We have net operating loss carry forwards. As of December 31, 2020, our net operating loss carry forwards for Israeli tax purposes amounted to approximately \$76 million. Under Israeli law, net operating losses can be carried forward indefinitely and offset against certain future taxable income. We expect that if or when we become profitable, we will generate the substantial majority of our taxable income in Israel. However, no tax benefit was recorded for the years ended 2018, 2019 and 2020 for the deferred tax assets of the Israeli entity, since we have recorded a full valuation allowance against these deferred tax assets which are less likely than not to be realized.

In addition, we are entitled to tax benefits under the Investment Law in Israel in respect of our status as a Benefited Enterprise. Under the Investment Law, our effective tax rate to be paid with respect to our Israeli taxable income as a Benefited Enterprise may be lower than the standard corporate tax rate. The tax benefit period for the Benefited Enterprise program under the Investment Law is expected to end in 2022. The availability of these tax benefits is subject to certain requirements, including making specified investments in property and equipment, and financing a percentage of investments with share capital. If we do not meet these requirements in the future, the tax benefits may be canceled and we could be required to refund any tax benefits that we have already received.

Our U.S. and European subsidiaries currently generate taxable income in the United States and Europe. To the extent that we generate taxable income in Israel, our effective tax rate will be a weighted average rate based on the applicable U.S., European and Israeli tax rates.

### **A. Operating Results**

We are providing within this section a supplemental discussion that compares our historical statement of operations data in accordance with accounting principles generally accepted in the United States, or GAAP. The below tables provide data for each of the years ended December 31, 2020 and 2019. The following discussion and analysis is based on our consolidated financial statements including the related notes, and should be read in conjunction with them. Our consolidated financial statements are provided in “Item 18 – Financial Statements”.

For discussion related to our financial condition, changes in financial condition, and the results of operations for the year ended December 31, 2019 compared to the year ended December 31, 2018, refer to Part I, Item 5. “Operating and Financial Review and Prospects” in our Annual Report on Form 20-F for the fiscal year ended December 31, 2019, which was filed with the SEC on March 18, 2020.

## Comparison of Period to Period Results of Operations

### Results of Operations

The following tables summarize our results of operations in dollars and as a percentage of our total revenues for the periods indicated. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Year ended December 31,			
	2019		2020	
	Amount	%	Amount	%
	<i>(Dollars in thousands)</i>			
<b>Revenues:</b>				
Product	\$ 47,365	45.9%	\$ 38,690	38.4%
Maintenance and professional services	55,905	54.1	62,144	61.6
Total revenues	103,270	100.0	100,834	100.0
<b>Cost of revenues:</b>				
Product	2,716	2.6	2,940	2.9
Maintenance and professional services	17,141	16.6	17,307	17.2
Total cost of revenues(1)	19,857	19.2	20,247	20.1
Gross profit	83,413	80.8	80,587	79.9
<b>Operating expenses:</b>				
Research and development(1)	31,571	30.6	34,978	34.7
Sales and marketing(1)	63,981	62.0	59,484	59.0
General and administrative(1)	14,884	14.4	20,050	19.9
Total operating expenses	110,436	106.9	114,512	113.6
Operating loss	\$ (27,023)	(26.1)	\$ (33,925)	(33.6)
Financial income (loss), net	(85)	(0.1)	114	0.1
Loss before taxes on income	\$ (27,108)	(26.2)	\$ (33,811)	(33.5)
Taxes on income	(1,011)	(1.0)	(1,595)	(1.6)
Net loss	\$ (28,119)	(27.2)%	\$ (35,406)	35.1%

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

	Year ended December 31,	
	2019	2020
	<i>(in thousands)</i>	
<b>Share-based Compensation Expense:</b>		
Cost of revenues	\$ 1,514	\$ 2,024
Research and development	2,370	4,437
Sales and marketing	4,849	4,635
General and administrative	2,194	3,929
Total share-based compensation expenses	\$ 10,927	\$ 15,025

## Comparison of the Years Ended December 31, 2019 and 2020

### Revenues

	Year ended December 31,		Change	
	2019	2020	Amount	%
	Amount	Amount		
	<i>(Dollars in thousands)</i>			
Revenues:				
Product	\$ 47,365	\$ 38,690	\$ (8,675)	(18.3)
Maintenance and support	46,019	50,794	4,755	10.4
Professional services	9,886	11,350	1,464	14.8
Total revenues	\$ 103,270	\$ 100,834	\$ (2,436)	(2.4)

Revenues decreased by \$2.4 million, or 2.4%, from \$103.3 million in 2019 to \$100.8 million in 2020. The decrease in total revenues was driven by a decrease in product revenues across all regions and was partially offset by increase in maintenance and support revenues. The decrease in total revenues was also reflected by \$5.4 million decrease in revenues from new customers, which was partially offset by \$3.0 increase in revenues from existing customers.

Product revenues decreased by \$8.7 million, or 18.3%, from \$47.4 million in 2019 to \$38.7 million in 2020. This decrease was driven by decrease sales volumes to new and existing customers, which decreased by \$4.6 million and \$4.1 million, respectively. The substantial majority of our product revenues was attributable to sales of perpetual licenses.

Maintenance and support revenues grew by \$4.8 million, or 10.4%, from \$46.0 million in 2019 to \$50.8 million in 2020. This increase was driven by revenues from maintenance and support contracts renewals, which accounted for \$3.8 million of this increase and from initial maintenance and support contracts which accounted for \$1.0 million of this increase.

Professional services revenues increased by \$1.5 million, or 14.8%, from \$9.9 million in 2019 to \$11.4 million in 2020. This increase was attributable to the timing of projects deployment by our professional services teams in order to achieve faster delivery times and improved services to our expanding customer base.

### Geographic Breakdown of Revenues

The following table sets forth the geographic breakdown of our revenues by region for the periods indicated:

	Year ended December 31,			
	2019		2020	
	Amount	%	Amount	%
	<i>(in thousands)</i>			
Americas	\$ 56,848	55.1%	\$ 54,645	54.2%
EMEA	40,903	39.6	40,114	39.8
APAC	5,519	5.3	6,075	6.0
Total	\$ 103,270	100.0%	\$ 100,834	100.0%

The Americas accounted for the majority of our revenues in each of the years ended December 31, 2019 and 2020. EMEA also accounted for a significant portion of our revenues in each of the years ended December 31, 2019 and 2020, with revenues generated in Germany representing 30% and 29%, respectively, of EMEA revenues.

## Cost of Revenues

	Year ended December 31,		Change	
	2019	2020	Amount	%
	Amount	Amount		
<i>(Dollars in thousands)</i>				
Cost of revenues:				
Product	\$ 2,716	2,940	\$ 224	8.2%
Maintenance and professional services	17,141	17,307	166	1.0
Total cost of revenues	<u>\$ 19,857</u>	<u>20,247</u>	<u>\$ 390</u>	<u>2.0%</u>

Cost of revenues increased by \$0.4 million, or 2%, from \$19.9 million in 2019 to \$20.2 million in 2020. This increase was primarily driven by the increase in compensation costs resulted from an increase of the number of employees of our services, support and fulfillment teams on an annual-average basis which includes an increase of \$0.5 million in share-based compensation expense, as well as an increase in related overhead costs.

Cost of product revenues increased by \$0.2 million, or 8.2%, from \$2.7 million in 2019 to \$2.9 million in 2020.

Cost of maintenance and professional services revenues increased by \$0.2 million, or 1%, from \$17.1 million in 2019 to \$17.3 million in 2020. The increase in cost of maintenance and professional services revenues was driven primarily by an increase in personnel costs and related overhead expenses as we remain committed to support our increased sales of our services offerings.

## Gross Profit

	Year ended December 31,				Gross Profit Change	
	2019		2020		Amount	%
	Gross Profit	Gross Margin	Gross Profit	Gross Margin		
Gross profit	\$ 83,413	80.8%	\$ 80,587	79.9%	\$ 2,826	(3.4)%

Gross profit decreased by \$2.8 million, or 3.4%, from \$83.4 million in 2019 to \$80.6 million in 2020. Gross margins decreased from 80.8% to 79.9% during the same period. This decrease was driven by lower revenues and revenues mix, as well as higher costs of revenues in 2020 compared to 2019, as discussed above.

## Operating Expenses

	Year ended December 31,		Change	
	2019	2020	Amount	%
	Amount	Amount		
<i>(Dollars in thousands)</i>				
Operating expenses:				
Research and development	\$ 31,571	\$ 34,978	\$ 3,407	10.8%
Sales and marketing	63,981	59,484	(4,497)	(7.0)
General and administrative	14,884	20,050	5,166	34.7
Total operating expenses	<u>\$ 110,436</u>	<u>\$ 114,512</u>	<u>\$ 4,076</u>	<u>3.7%</u>

Total operating expenses increased by \$4.1 million, or 3.7%, from \$110.4 million in 2019 to \$114.5 million in 2020.

*Research and Development.* Research and development expenses increased by \$3.4 million, or 10.8%, from \$31.6 million in 2019 to \$35.0 million in 2020. This increase was primarily attributable to an increase of \$3.6 million in compensation expenses, which includes a \$2.1 million increase in share-based compensation expense. The increase in compensation expenses was driven by an increase of our research and development teams on an annual-average basis, as well as unfavorable impact of foreign exchange rate fluctuations (mainly the NIS in relation to the U.S. dollar). The increase in research and development expenses reflects our plans to invest in strategic initiatives that further strengthen our technology platform and enhance our current and future product and service offerings. The increase was partially offset by \$0.2 million decrease in travel and allocated overhead costs.

*Sales and Marketing.* Sales and marketing expenses decreased by \$4.5 million, or 7.0%, from \$64.0 million in 2019 to \$59.5 million in 2020. This decrease was attributable to a \$3.5 million decrease in travel expenses due to COVID-19 travel restrictions and additional costs savings associated with marketing-related activities of approximately \$2.2 million resulting from fewer in-person events and cancellations or postponements of certain marketing events for future periods due to COVID-19. The decrease in sales and marketing expenses was partially offset by higher compensation costs of \$1.6 million. Despite our workforce reduction from 223 as of December 31, 2019 to 194 as of December 31, 2020, our sales and marketing organization grew on an annual-average basis. In addition, we also incurred certain termination costs.

*General and Administrative.* General and administrative expenses increased by \$5.2 million, or 34.7%, from \$14.9 million in 2019 to \$20.1 million in 2020. This increase was primarily attributable to an increase of \$3.0 million in compensation costs, which includes a \$1.7 million increase in share-based compensation expense as we grew our general and administrative teams in order to scale and support the business needs as a public company. Our general and administrative headcount has increased from 48 in 2019 to 63 in 2020, on an annual-average basis. The remaining increase in general and administrative expense of \$2.2 million was primarily due to increase in corporate insurance, as well as accounting and legal costs.

### **Financial Income (loss), Net**

	<b>Year ended December 31,</b>		<b>Change</b>	
	<b>2019</b>	<b>2020</b>		
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>%</b>
	<i>(Dollars in thousands)</i>			
Financial Income (loss), net	\$ (85)	\$ 114	\$ 199	234%

Financial income, net increased from financial loss, net of \$0.1 million in 2019 to a financial income, net of \$0.1 million in 2020. Our financial income, net was impacted by exchange rate fluctuations in the foreign currencies against the U.S. dollar and our derivatives and hedging activities, which was minimal in 2020 compared to \$0.8 million unfavorable impact in 2019. The increase of the financial income, net was partially offset by decrease of \$0.5 million in our interest income, net in 2020 compared to 2019.

### **Taxes on Income**

	<b>Year ended December 31,</b>		<b>Change</b>	
	<b>2019</b>	<b>2020</b>		
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>%</b>
	<i>(Dollars in thousands)</i>			
Taxes on income	\$ (1,011)	\$ (1,595)	\$ (584)	(58)%

Taxes on income increased from a tax expense of \$1.0 million in 2019 to a tax expense of \$1.6 million in 2020. Our effective tax rate was primarily impacted by our diverse geographic mix of earnings and losses, as well as our full valuation allowance against potential future benefits for deferred tax assets of our Israeli entity, including loss carryforwards generated in Israel, therefore, the majority of our taxes on income are derived from our operations in the United States. In addition, our effective tax rate is based on recurring factors, including the geographic mix of foreign taxable income and loss, as well as nonrecurring items that may not be predictable. See Note 11 to our consolidated financial statements included elsewhere in this annual report for a full reconciliation of our effective tax rate to the Israeli statutory rate of 23% and for further explanation of our provision for income taxes.

## Application of Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

The critical accounting policies requiring estimates, assumptions, and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

### *Revenue Recognition*

We determine the appropriate revenue recognition for our contracts with customers by analyzing the type, terms and conditions of each contract. We classify the revenue components as products according to the attributes of the underlying components.

We sell our on-premises software licenses through both perpetual and, to a lesser extent, term-based license agreements. Our products offer the same functionality whether our customers receive them through a perpetual or term-based license. We deliver our software licenses electronically. Electronic delivery occurs when we provide the channel partner or customer with access to our software and license key via a secure portal. We generally recognize revenues from on-premises software licenses upfront when we make the software available to the channel partner or, if we are selling directly, customer. We recognize hardware sales upon delivery.

We generally recognize revenues from software sold through term-based license agreements upfront, upon delivery to the channel partner or, if we are selling directly, customer. We defer the associated maintenance revenues and recognize them over the contract period. Assuming we expect to recover the costs, we capitalize all incremental costs we incur to obtain a contract with a customer that we would not have incurred if we had not obtained the contract. We include amortization expense in sales and marketing expenses in our consolidated statements of operations. We amortize costs incurred in obtaining a contract as a sales and marketing expense on a straight-line basis over the expected period of benefit. We periodically review these costs for impairment.

Our contract payment terms typically range between 30 and 120 days. We assess collectability based on several factors, including collection history.

Our contracts with customers for software licenses include maintenance and may also include training and/or professional services. Maintenance consists of fees for providing software updates and technical support for our products for a specified term. We recognize maintenance revenues ratably over the contractual service period. We bill for professional services on a fixed fee basis and recognize revenues as we perform the services. We defer payments received in advance of services performed and recognize such payments when we perform the related services.

In contracts with multiple performance obligations, we account for individual performance obligations separately if they are distinct. We allocate the transaction price to each performance obligation based on its relative standalone selling price out of the total consideration of the contract. For maintenance and support contracts, we determine the standalone selling price based on the price at which we separately sell a renewal contract. We determine the standalone selling price for sales of licenses using the residual approach. For professional services, we determine the standalone selling prices based on the price at which we separately sell those services.

### *Share-Based Compensation*

We measure and recognize share-based compensation expense in our consolidated financial statements based on the grant date fair value of the award. We recognize the grant date fair value of the award as an expense based on the graded vesting attribution method over the requisite service period (primarily a four-year period).

We estimated the grant date fair value of share options for the years ended December 31, 2019 and 2020 using the Black-Scholes option-pricing model. Our use of the Black-Scholes option-pricing model requires the input of highly subjective assumptions, including estimated fair value of our ordinary share price, expected share price volatility and expected term. The fair value of restricted stock units ("RSU") is based on the closing market value of the underlying shares at the date of grant.

Following our initial public offering on April 11, 2019, our ordinary shares are publicly traded, and therefore we currently base the value of our ordinary shares on their market price.

- *Risk-Free Interest Rate.* We base the risk-free interest rate on the implied yield on currently available U.S. treasury zero-coupon securities with a remaining term equal to the expected life of our options.
- *Dividend Yield.* We base dividend yield on our historical experience and expectation of no future dividend payouts. We have historically not paid cash dividends and have no foreseeable plans to pay cash dividends in the future.



- *Expected Volatility.* We base expected share price volatility on the historical volatility of the ordinary shares of comparable companies that are publicly traded, as well as the historical volatility of the Company's ordinary shares.
- *Expected Term.* The expected term of options granted represents the period of time that options granted are expected to be outstanding. The expected option term is calculated using the simplified method, as we concluded that currently our historical share option exercise experience does not provide an adequate basis to estimate our expected option term.

Any changes in these highly subjective assumptions would significantly impact our share-based compensation expense.

### ***Research and Development Costs***

ASC 985 requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on our product development process, technological feasibility is established upon completion of a working model. We do not incur material costs between the completion of the working model and the point at which the products are ready for general release. Therefore, research and development costs are charged to the statement of operations as incurred.

### ***Income Taxes***

We account for income taxes using the asset and liability approach, which requires the recognition of taxes payable or refundable for the current year and the deferred tax liabilities and assets for the future tax consequences of events that we have recognized in our financial statements or tax returns.

We measure current and deferred tax liabilities and assets based on provisions of the relevant tax law. We reduce the measurement of deferred tax assets, if necessary, by the amount of any tax benefits that we do not expect to realize. We classify interest and penalties relating to uncertain tax positions within taxes on income.

### ***Accounts Receivable***

We present accounts receivable in our consolidated balance sheets net of allowance for credit losses for potential uncollectible amounts. We estimate the collectability of accounts receivable balances and adjust the allowance for credit losses based on our assessment of collectability by reviewing accounts receivable on an aggregated basis where similar characteristics exist and on an individual basis when it identifies specific customers with known disputes or collectability issues. We also consider a number of factors to assess collectability, including the past due status, creditworthiness of the specific customer, payment history and reasonable and supportable forecasts of future economic conditions.

When revenue recognition criteria are not met for a sale transaction that has been billed, we do not recognize deferred revenues on our balance sheet or the related account receivable.

### ***Derivative Instruments***

We carry out transactions involving foreign currency exchange derivative financial instruments. These transactions are designed to hedge our exposure in currencies other than the U.S. dollar, and are not designated as an accounting hedge. We are primarily exposed to foreign exchange risk with respect to recognized assets and liabilities and anticipated transactions denominated in the NIS, Euro and British Pound, including payroll expenses. Going forward we may consider to designate transactions involving foreign currency exchange derivative financial instruments as an accounting hedge.

## **B. Liquidity and Capital Resources**

As of December 31, 2020, we had \$104.0 million of cash and cash equivalents, restricted bank deposits, short-term marketable securities and long-term marketable securities, compared to \$121.7 million as of December 31, 2019. The majority of our cash and cash equivalents, restricted bank deposits and marketable securities are held in banks in Israel and the United States. Our marketable securities primarily consist of highly-rated corporate debt securities and U.S. government agency securities. We believe that our existing cash and cash equivalents will be sufficient to fund our operations, as well as our working capital and capital expenditures needs for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, which may be impacted, among other factors, by our transition to subscription-based business model, the expansion of our sales and marketing activities, the timing and extent of spending to support product development efforts and expansion into new geographic locations, the timing of introductions of new products and enhancements to existing products and the continuing market acceptance of our products and services.

### ***Net Cash Used in Operating Activities***

Cash used by operating activities was \$17.4 million for the year ended December 31, 2020. This was primarily due to an increased net loss of \$35.4 million adjusted by non-cash charges of \$15.6 million, primarily relating to share-based compensation of \$15.0 million and depreciation expense, as well as a favorable impact of \$2.4 million resulting from the net changes in our operating assets and liabilities. Changes in operating assets and liabilities included (i) a \$2.2 million increase in deferred revenues representing unearned amounts resulting primarily from increased maintenance and support sales and (ii) a \$4.3 million increase in employee and payroll accrued expenses and operating lease liabilities, net, partially offset by (a) a \$2.6 million increase in prepaid expenses and other current assets, (b) a \$0.5 million increase in accounts receivables and (c) a \$0.7 million increase in deferred costs.

Cash used by operating activities was \$9.6 million for the year ended December 31, 2019. This was primarily due to an increased net loss of \$28.1 million adjusted by non-cash charges of \$11.5 million, primarily relating to share-based compensation of \$10.9 million and depreciation expense, as well as a favorable impact of \$7.0 million resulting from the net changes in our operating assets and liabilities. Changes in operating assets and liabilities included (i) a \$4.1 million increase in deferred revenues representing unearned amounts resulting primarily from increased maintenance and support sales and (ii) a \$7.1 million increase in employee and payroll accrued expenses and operating lease liabilities, net, partially offset by (a) a \$2.0 million increase in deferred taxes and other non-current assets, (b) a \$1.5 million increase in accounts receivables and (c) a \$0.9 million decrease in trade payables and other accounts payables.



### ***Net Cash Used in Investing Activities***

Investing activities for the year ended December 31, 2020 have consisted primarily of investment in, and proceeds from marketable securities, as well as capital expenditures to purchase property and equipment.

During the year ended December 31, 2020, net cash used in investing activities was \$44.4 million was attributable to net purchases of marketable securities of \$42.3 million and \$2.1 million purchase of capital expenditures to purchase property and equipment for our leased offices.

During the year ended December 31, 2019, net cash used in investing activities was \$2.7 million consisting primarily of purchases of property and equipment for our leased offices.

### ***Net Cash Provided by Financing Activities***

Net cash provided by financing activities was \$0.7 million in the year ended December 31, 2020, consisting of \$1.4 million in proceeds from the exercise of employee share options, partially offset by the changes in its related withholding amounts.

Net cash provided by financing activities was \$115.8 million in the year ended December 31, 2019, consisting of \$115.3 million in proceeds from our initial public offering, which were partially offset by \$2.6 million in offering-related expenses. In addition, cash provided by financing activities consisted of \$3.3 million in proceeds from the exercise of employee share options and the related withholding amounts.

### **C. Research and Development, Patents and Licenses, etc.**

We conduct our research and development activities primarily in Israel. As of December 31, 2020 our research and development personnel included 178 employees and contractors.

For a description of our research and development policies, see “Item 4.B. Business Overview—Research and development.”

### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2020 to December 31, 2020 that are reasonably likely to have a material adverse effect on our net revenue, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

### **E. Off-Balance Sheet Arrangements**

We do not currently engage in off-balance sheet financing arrangements. In addition, we do not have any interest in entities referred to as variable interest entities, which includes special purposes entities and other structured finance entities.

## F. Contractual Obligations

### Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2020:

	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1 – 3 Years</u>	<u>4 – 5 Years</u>	<u>More Than 5 Years</u>
			<i>(in thousands)</i>		
Operating lease obligations	\$ 30,234	\$ 4,378	\$ 8,521	\$ 7,137	\$ 10,198
Total	<u>\$ 30,234</u>	<u>\$ 4,378</u>	<u>\$ 8,521</u>	<u>\$ 7,137</u>	<u>\$ 10,198</u>

### Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk is primarily a result of fluctuations in foreign currency exchange rates.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

#### Executive Officers and Directors

The following table sets forth the name, age and position of each of our executive officers and directors

<u>Name</u>	<u>Age</u>	<u>Position</u>
<i>Executive Officers</i>		
Reuven Kitov	47	Chief Executive Officer, Co-Founder and Chairman of the Board
Reuven Harrison	51	Chief Technology Officer, Co-Founder and Director
Jack Wakileh	49	Chief Financial Officer
Yoram Gronich	52	Vice President of Research & Development
Ofer Or	44	Vice President of Products
Raymond Brancato (1)	56	Chief Revenue Officer
Kevin Maloney (2)	66	Senior Vice President of Global Sales
<i>Directors</i>		
Tom Schodorf (3)(6)	62	Lead Independent Director
Ohad Finkelstein (6)	60	Director
Yuval Shachar (5)(6)	58	Director
Yair Shamir (5)(6)	75	Director
Edouard Cukierman (5)(6)	56	Director
Peter Campbell (3)(4)(6)	56	Director
Dafna Gruber (3)(4)(5)(6)	56	Director
Brian Gumbel (3)(5)	45	Director

(1) Serves as our Chief Revenue Officer since January 2021.

(2) Left Tufin in February 2021.

(3) Member of our audit committee.

(4) Member of our compensation committee.

(5) Member of our nominating and corporate governance committee.

(6) Independent director under NYSE rules.

*Reuven Kitov* is our Chief Executive Officer, Co-Founder and Chairman of the board of directors, which positions he has held since co-founding Tufin in January 2005. Prior to co-founding Tufin, Mr. Kitov held key project management and development roles at Check Point Software Technologies, Inc. from 1998 to 2003. Mr. Kitov holds a Bachelor of Science degree in Computer Science from the University of Maryland in College Park, Maryland.

*Reuven Harrison* is our Chief Technology Officer, Co-Founder and a director, which positions he has held since co-founding Tufin in January 2005. Prior to co-founding Tufin, Mr. Harrison held key software developer positions at Check Point Software Technologies, Inc. from 1999 to 2003, as well as other key positions at Capsule Tech, Inc. from 1997 to 1999 and ECS Inc. from 1991 to 1996. Mr. Harrison holds a Bachelor of Arts degree in Mathematics and Philosophy from Tel Aviv University in Israel.

*Jack Wakileh* is our Chief Financial Officer, which position he has held since July 2013. Prior to joining Tufin, Mr. Wakileh worked as a financial and business consultant for various technology companies from 2010 to 2013. He was a Co-Founder of iSpade Technologies Ltd. and was Chief Financial Officer from 2008 to 2010, Co-Chief Executive Officer of LEADIP Systems Ltd. from 2006 to 2007 and Chief Financial Officer of VCON Telecommunications Ltd. from 1999 to 2005 prior to which he held the Corporate Controller position. Mr. Wakileh holds a Bachelor of Arts degree in Accounting and Economics from Tel Aviv University in Israel and is a Certified Public Accountant.

*Kevin Maloney* served as our Senior Vice President of Global Sales from July 2015 until he resigned in February 2021. Prior to joining Tufin, Mr. Maloney held senior management positions at Easylink Services International Corporation from December 2007 to July 2012, Network General Corporation from June 2006 to November 2007 and Check Point Software Technologies, Inc. from June 2005 to June 2006. Mr. Maloney holds a Master of Business Administration degree from the Stetson School of Business and Economics at Mercer University in Macon, Georgia and a degree from Wheeling Jesuit University in Wheeling, West Virginia.

*Raymond Brancato* joined Tufin in January 2021 as our Chief Revenue Officer. He joined Tufin from AnyVision, an artificial intelligence company, where he was Chief Revenue Officer from March 2019 to January 2021. Prior to AnyVision, he held senior sales leadership positions over the course of 10 years with CA Technologies, including Vice President, Senior Vice President and General Manager of Business Unit Sales. Prior to that, he was Vice President of Sales, Americas at Kabira Technologies from April 2007 to March 2009, Director of Sales at BMC Software from November 2002 to April 2007, and Vice President of Sales at Remedy from December 2000 to November 2002. He holds a Bachelor of Science degree in Finance and Management Science from the University of South Carolina.

*Yoram Gronich* is our Vice President of Research & Development, which position he has held since September 2008. Prior to joining Tufin, Mr. Gronich held software management and engineering positions at Symantec Corporation from 2005 to 2008. He previously held project management and team leader roles at Check Point Software Technologies, Inc. from 2002 to 2005. Mr. Gronich holds a Master of Science degree in Electrical Engineering and a Bachelor of Science degree in Physics and Computer Science each from Tel Aviv University in Israel.

*Ofer Or* has served as our Vice President of Products since July 2014. Prior to assuming this role, Mr. Or served as our Director of Research & Strategy. Prior to joining Tufin, he held senior product management positions at Check Point Software Technologies, Inc. from 2009 to 2013. Mr. Or also held product marketing and business development positions at Microsoft from 2007 to 2009 and Amdocs Ltd. from 2006 to 2007. Before that, he held several R&D Leadership positions at Check Point Software Technologies, Inc. from 2000 to 2005, and in an elite computer unit of the Israel Defense Forces from 1994 to 2000. Mr. Or holds a Master of Business Administration degree from INSEAD University in Fontainebleau, France, and holds a Master of Arts degree in Law and a Bachelor of Arts degree in Political Science and Sociology, each from Bar Ilan University in Ramat-Gan, Israel.

*Ohad Finkelstein* has served as a director since January 2011. Mr. Finkelstein serves as Managing Partner of Danli Capital, an investment advisory firm that he founded in 2017. Mr. Finkelstein is the Co-Founding Partner of Marker LLC, which he founded in 2011. Prior to that, from 2005 to 2011, he led international investment for Venrock, an Israeli venture capital firm. He served as the Chairman, Chief Executive Officer and President at Interoute Communications Limited from 1999 to 2003. Mr. Finkelstein holds a Bachelor of Arts degree in Political Science and International Marketing from the University of California, Los Angeles.

*Yuval Shachar* has served as a director since October 2009. Mr. Shachar is the Executive Chairman and Co-Founder of Team8, a venture capital firm specializing in incubation of security companies. Mr. Shachar serves as Founding Venture Partner of Innovation Endeavors, which he joined at its inception, previously serving as an investment partner of its predecessor fund from 2013. Mr. Shachar served as Co-Founding Partner of Marker LLC and its predecessors from 2011. From 2004 to 2009, he served as General Manager of a Cisco business unit in its Service Provider group. Prior to that, Mr. Shachar served as Co-Founder, President and CEO of P-Cube (which was acquired by Cisco), and co-founded each of Pentacom and Infogear (which were each acquired by Cisco). From 1995 to 1998, Mr. Shachar served as Vice President of Research and Development at VocalTec Ltd. (which completed an IPO on The Nasdaq Stock Market, or Nasdaq, in 1996), and previously held key engineering and management positions at National Semiconductors. Mr. Shachar holds a Bachelor of Science degree in Mathematics and Computer Science from Tel Aviv University in Israel.

*Yair Shamir* has served as a director from 2007 to 2013 and again from October 2018 to present. Mr. Shamir has been a Founding and Managing Partner of Catalyst Investments since its establishment from 1999 to 2013 and again from 2015 to present. Mr. Shamir was elected as a member of the Israeli Parliament (Knesset) and served as Minister of Agriculture of the State of Israel from 2013 to 2015. Mr. Shamir served as the Chairman of the Israeli Road Safety Authorities from September 2018 until November 2020. Prior to that, he served as the Chairman of Board of N.T.A. – Metropolitan Mass Transit System until August 2018. Mr. Shamir served as the Chairman of Israel's National Roads Company from 2011 to 2012. Mr. Shamir served as the Chairman of Israel Aerospace Industries Ltd. from 2005 until 2011. From 2004 to 2007, Mr. Shamir was the Chairman of Shamir Optical Industry Ltd. From 2004 to 2005, Mr. Shamir served as the Chairman of EL AL. From 1997 to 2004, Mr. Shamir served as the Chief Executive Officer and Chairman of VCON Telecommunications Ltd. Mr. Shamir was a board member of DSP Group Corporation from 2005 to 2013. Mr. Shamir holds a Bachelor of Science degree in Electronics Engineering from the Technion, Israel Institute of Technology in Haifa, Israel.

*Edouard Cukierman* has served as a director since 2014. Mr. Cukierman has been a Founding and Managing Partner of Catalyst Investments since its establishment in 1999, and has served as the Chairman of Cukierman & Co. Investment House since its establishment. Prior to establishing and managing Catalyst Investments, Mr. Cukierman was the President and Chief Executive Officer of Astra Technological Investments, a Venture Capital Fund established in 1993. Mr. Cukierman serves as a board member of Dori Media Group. He is also the Founder of the GoforIsrael annual conference. Mr. Cukierman served as a Reserve Officer of the Crisis & Hostage Negotiation Team and IDF Spokesman Unit. Mr. Cukierman holds a Master of Business Administration degree from INSEAD University in Fontainebleau, France and a Bachelor of Science degree from the Technion, Israel Institute of Technology in Haifa, Israel.

*Peter Campbell* has served as a director since 2019 and served as an external director under the Israeli Companies Law between July 2019 and May 2020. Mr. Campbell served as Chief Financial Officer of Mimecast Ltd. (traded on Nasdaq) from 2006 to 2019, where he also served as a director from 2007 to 2015. He previously served as Chief Financial Officer of SR Telecom Inc., where he was employed from 2002 to 2006. Prior to that, Mr. Campbell was an auditor at Ernst & Young LLP in Canada. Mr. Campbell holds a Bachelor of Commerce degree and a Graduate Diploma in accounting from the John Molson School of Business at Concordia University in Canada, where he also served as a lecturer.

*Dafna Gruber* has served as a member of our board of directors since 2019 and served as an external director under the Israeli Companies Law between July 2019 and May 2020. Ms. Gruber served as Chief Financial Officer of Aqua Security Ltd. from 2019 to 2021. She previously served as Chief Financial Officer of each of Landa Corporation from 2017 to 2018, Clal Industries Ltd. from 2015 to 2017, NICE Ltd. (traded on Nasdaq and the Tel Aviv Stock Exchange, or TASE) from 2007 to 2015 and Alvarion Ltd. (traded on Nasdaq and TASE) from 1995 to 2007. Ms. Gruber has also been a director, chairman of the audit committee and member of the compensation committee of TAT Technologies Ltd. (traded on Nasdaq and TASE) since 2013 and of Nova Measuring Instruments Ltd. (traded on Nasdaq and TASE) since 2015, and a director, audit and governance Committees member of Cognyte Ltd (traded on Nasdaq) since 2021 Ms. Gruber holds a Bachelor of Arts degree in Accounting and Economics from Tel Aviv University in Israel and is a Certified Public Accountant.

*Tom Schodorf* has served as a director since 2019 and as lead independent director since May 2020. Mr. Schodorf founded View Consulting LLC, specializing in advisory services for the technology industry, in 2014. He previously served as Senior Vice President of Sales and Field Operations of Splunk Inc. (traded on Nasdaq) from October 2009 to March 2014, and prior to that, he held various sales and executive management positions at BMC Software and IBM. Mr. Schodorf has also been a director of Egnite since 2018, of OutSystems since 2017, of Rapid7 since 2016 and of Kaseya since 2014. Mr. Schodorf holds a Masters of Business Administration degree from the University of Dayton in Dayton, Ohio and a Bachelor of Science in Business Administration from the Ohio State University in Columbus, Ohio.

*Brian Gumbel* has served as a director since 2019. Mr. Gumbel currently serves as the Chief Revenue Officer of Armis Inc. Prior to joining Armis, he served as the Chief Revenue Officer for Sisense from October 2019 to April 2020. He previously served as the Senior Vice President of Worldwide Sales at Forescout Technologies Inc., where he held senior management positions from October 2015 to October 2019. Previously, he led sales and operations at Tanium as the Vice President for Americas East and Canada from February 2014 to October 2015. Prior to that, he worked at McAfee from 2007 to 2014 ultimately serving as the Vice President for Americas East and Canada, and at Cisco from 2000 to 2007 in various sales and leadership positions. Mr. Gumbel holds a Bachelor of Science degree in Biology from Marist College in Poughkeepsie, New York.

## B. Compensation

### Compensation of Directors and Executive Officers

The aggregate compensation expensed, including share-based compensation and other compensation expensed by us and our subsidiaries, to our directors and executive officers with respect to the year ended December 31, 2020 was \$7.9 million. This amount includes approximately \$0.5 million set aside or accrued to provide pension, severance, retirement, or similar benefits.

The table below sets forth the compensation paid to our five most highly compensated office holders (as defined in the Companies Law and described under “Board Practices—Disclosure of Compensation of Executive Officers” below) during or with respect to the year ended December 31, 2020. We refer to the five individuals for whom disclosure is provided herein as our “Covered Executives.”

For purposes of the table and the summary below, “compensation” includes base salary, bonuses, equity-based compensation, retirement or termination payments, benefits and perquisites such as car, phone and social benefits and any undertaking to provide such compensation.

#### Summary Compensation Table

Name and Principal Position(2)	Information Regarding the Covered Executive(1)				Total
	Base Salary	Benefits and Perquisites(3)	Variable Compensation(4)	Equity-Based Compensation(5)	
Kevin Maloney, Former Senior Vice President of Global Sales	342,500	68,468	240,000	17,052	668,020
Jack Wakileh, Chief Financial Officer	255,495	86,315	33,689	240,960	616,459
Reuven Kitov, Chief Executive Officer	281,557	53,538	55,008	192,726	582,829
Larry Alston, General Manager of Cloud	245,651	34,227	70,750	228,471	579,099
Raj Motwane, Vice President, Global Services & Support	260,692	54,762	58,965	173,331	547,750

- (1) In accordance with Israeli law, all amounts reported in the table are in terms of cost to our company, as recorded in our financial statements.
- (2) All current executive officers listed in the table are full-time employees. Cash compensation amounts denominated in currencies other than the U.S. dollar were converted into U.S. dollars at the average conversion rate for the year ended December 31, 2020.
- (3) Amounts reported in this column include benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to each executive, payments, contributions and/or allocations for savings funds, pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances (such as life, disability and accident insurances), convalescence pay, payments for social security, tax gross-up payments and other benefits and perquisites consistent with our guidelines.
- (4) Amounts reported in this column refer to Variable Compensation such as earned commission, incentive and bonus payments as recorded in our financial statements for the year ended December 31, 2020.
- (5) Amounts reported in this column represent the expense recorded in our financial statements for the year ended December 31, 2020 with respect to equity-based compensation. Assumptions and key variables used in the calculation of such amounts are described in Note 10 to our audited consolidated financial statements, which are included in this annual report.

### Employment Agreements with Executive Officers

We have entered into written employment agreements with each of our executive officers. These agreements provide for notice periods of varying duration for termination of the agreement by us or by the relevant executive officer, during which time the executive officer will continue to receive base salary and benefits. These agreements also contain customary provisions regarding noncompetition, confidentiality of information and assignment-of-inventions. However, the enforceability of the noncompetition provisions may be limited under applicable law.

## **Directors' Service Contracts**

There are no arrangements or understandings between us, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company.

## **Equity Incentive Plans**

### ***2007 Israeli Share Option Plan***

#### *Effective Date and Shares Reserved.*

On October 21, 2007, our board of directors adopted the 2007 Israeli Share Option Plan, or the 2007 Plan. The 2007 Plan generally allowed us to grant options to our employees, directors, officers, consultants, advisors and any other person providing services to us or any of our affiliates. In May 2017, we extended the terms of options held by certain holders under the 2007 Plan by an additional 10 years. Unless earlier terminated pursuant to the original terms of the 2007 Plan, all granted but unexercised options will expire and cease to be exercisable at 5:00 p.m. Israel time on the 10<sup>th</sup> anniversary of the vesting commencement date of such options. We no longer make awards under the 2007 Plan. As of February 19, 2021, options to purchase a total of 2,495,639 shares were outstanding under the 2007 Plan.

*Plan Administration.* The 2007 Plan may be administered by our board of directors or a committee thereof. Subject to Israeli law and our amended and restated articles of association or any resolution to the contrary by our board of directors, the administrator is authorized, in its sole and absolute discretion, to exercise all powers and authorities specifically granted to it under the 2007 Plan or necessary or advisable in the administration of the 2007 Plan.

*Vesting Terms and Conditions of the Options.* Unless otherwise determined by the administrator, options under the 2007 Plan vest and become exercisable as follows: 25% of the shares covered by the options vested on the first anniversary of the vesting commencement date, 1/3 of the remaining shares vest on each subsequent anniversary of the vesting commencement date and all options become fully vested by the fourth anniversary of the vesting commencement date.

*Israeli Tax Law.* Unless otherwise determined by the administrator, any underlying shares issued upon exercise of options (granted through the "capital gains track through a trustee" in accordance with Section 102(b)(2) of the Israeli Income Tax Ordinance (New Version), 1961, or the Israeli Tax Ordinance), will be held by a trustee until the lapse of the holding period (as defined in the 2007 Plan), or, subject to a tax ruling, until the earlier of a merger (as defined in the 2007 Plan) or an initial public offering. We appointed a trustee to hold the allocated options and underlying shares issued upon the exercise of such options in a trust on behalf of each applicable Israeli grantee. No underlying shares or additional rights we issue to the trustee will be held for a period longer than 20 years after the end of the term of the options.

*Termination of Employment or Service.* In the event that the employment or service of a grantee terminates (other than by reason of death, disability retirement or for cause), all options of such grantee that are vested but unexercised on the date of the termination may be exercised unless earlier terminated in accordance with their terms and if not previously expired, no later than the earlier of (i) 90 days after such termination and (ii) the term of the option. All other granted options will expire upon such termination. In the event of a grantee's death during employment or service, or in the event of a grantee's termination due to retirement or disability, all of the grantee's vested but unexercised options will be exercisable until the earlier of (i) 180 days after the date of termination of employment and (ii) the term of the option. In the event of a grantee's termination for cause, all options, whether vested or unvested, will expire.

*Merger.* In the event of a merger transaction (as defined in the 2007 Plan), the administrator in its sole discretion, will decide (i) if and how the unvested options will be canceled, replaced or accelerated, (ii) if and how vested options will be exercised, replaced and/or sold by us or the trustee on the behalf of Israeli participants and (iii) how underlying shares issued upon exercise of the options and held by the trustee on behalf of Israeli participants will be replaced and/or sold by the trustee on behalf of the Israeli participant.

### ***2008 U.S. Stock Plan***

*Effective Date and Shares Reserved.* On May 25, 2008, our board of directors adopted the 2008 U.S. Stock Plan, or the 2008 Plan. The 2008 Plan generally allowed us to grant nonstatutory share options, incentive share options that satisfied the requirements of Section 422 of the Code, and the sale or award of shares to our employees, outside directors and consultants and those of Tufin Software North America, Inc., as well as any of our other subsidiaries. We no longer make awards under the 2008 Plan. As of February 19, 2021, options to purchase a total of 993,396 shares were outstanding under the 2008 Plan.

*Plan Administration.* The 2008 Plan may be administered by one or more committees of the board of directors. The entire board of directors may administer the 2008 Plan if no committee is otherwise appointed. Subject to the provisions of the 2008 Plan, the board of directors will have full authority and discretion to take any actions it deems necessary or advisable for the administration of the 2008 Plan. All decisions, interpretations and other actions of the board of directors will be final and binding on all participants.



*Terms and Conditions of Awards.* Any shares issued upon exercise of an option or awarded or sold under the 2008 Plan may be subject to the special forfeiture conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the board of directors may determine.

*Options.* The 2008 Plan requires that options have an exercise price that is not less than 100% of the fair market value of a share on the grant date. Incentive share options granted to an employee owning more than 10% of our or any of our subsidiaries' combined voting power will have an exercise price of at least 110% of the fair market value of the share on the grant date. The expiration date of an option may be no later than the 10th anniversary of the date of grant (or the fifth anniversary in the case of incentive share options granted to employees who, at the time of grant, own more than 10% of our or any of our subsidiaries' combined voting power).

*Change in Control.* In the event that we are a party to a merger, consolidation, exchange of shares, sale of all or substantially all of its assets or like event, all outstanding options will be subject to the applicable transaction agreement, which will provide for one or more of the following: (i) the continuation of our outstanding options (if we are the surviving corporation); (ii) the assumption of the outstanding option by the surviving corporation or its parent in a manner that complies with Section 424(a) of the Code; (iii) the substitution by the surviving corporation or its parent of new options for the outstanding options in a manner that complies with Section 424(a) of the Code; or (iv) the cancelation of the outstanding options without the payment of any consideration.

### **2018 U.S. Equity-Based Incentive Plan**

*Effective Date and Shares Reserved.* On April 9, 2018, our board of directors adopted the 2018 U.S. Equity-Based Incentive Plan, or the 2018 Plan. The 2018 Plan generally allowed us to grant options to our employees, directors, executive officers, consultants, advisors and any other person providing services to us or any of our affiliates who are U.S. citizens or who are resident aliens of the United States for U.S. federal income tax purposes. We no longer make awards under the 2018 Plan. As of February 19, 2021 options to purchase a total of 112,279 shares were outstanding under the 2018 Plan.

*Plan Administration.* The 2018 Plan may be administered by a committee of the board of directors. The entire board of directors may administer the 2018 Plan if no committee is otherwise appointed. Subject to the provisions of the 2018 Plan, the administrator of the 2018 Plan has full authority and discretion to take any actions it deems necessary or advisable for the administration of the 2018 Plan. All decisions, interpretations and other actions of the administrator of the 2018 Plan will be final and binding on all participants, unless otherwise determined by the board of directors.

*Options.* The 2018 Plan allows for the grant of nonqualified share options and incentive share options that satisfy the requirements of Section 422 of the Code. Each award will be evidenced by an option agreement that will govern such award's terms and conditions. Only our employees or employees of our parent or subsidiaries are eligible to receive incentive share options. The 2018 Plan requires that incentive share options have an exercise price that is not less than 100% of the fair market value of a share on the grant date and that nonqualified share options have an exercise price equal to the fair market value of a share on the grant date unless the committee administering the 2018 Plan specifies otherwise and the option complies with Section 409A of the Code. Incentive share options granted to an employee owning more than 10% of our or our and our subsidiaries' combined voting power will have an exercise price of at least 110% of the fair market value of the shares on the grant date. The expiration date of an option may be no later than the 10th anniversary of the date of grant, unless otherwise determined by the committee administering the 2018 Plan (or the fifth anniversary in the case of incentive share options granted to employees who, at the time of grant, own more than 10% of our or our parent's or subsidiaries' combined voting power).

*Termination of Employment or Service.* In the event that the employment or service of a grantee terminates (other than by reason of death, disability or retirement), all awards of such grantee that are unvested at the time of such termination will terminate on the date of such termination, and all awards of such grantee that are vested and exercisable at the time of such termination may, unless earlier terminated in accordance with their terms, be exercised within 12 months after the date of such termination (or such different period as the committee administering the 2018 Plan will prescribe). In the event of a grantee's death during employment or service or within three months following such grantee's termination, or in the event of a grantee's termination due to disability, all of the grantee's vested awards may be exercised at any time within one year after such death or disability. In the event of a grantee's retirement, all of the grantee's vested awards, unless earlier terminated in accordance with their terms, may be exercised at any time within the three month period following such retirement. If we (or our affiliate, when applicable) terminate the grantee's employment or service for cause, or if at any time during the exercise period, facts or circumstances arise or are discovered with respect to the grantee that would have constituted cause, all awards theretofore granted to such grantee will, to the extent not theretofore exercised, terminate on the date of such termination (or on such subsequent date on which such facts or circumstances arise or are discovered, as the case may be) unless otherwise determined by the committee administering the 2018 Plan.

*Merger or Sale.* In the event of a merger or sale, unless otherwise determined by the committee administering the 2018 Plan in its sole and absolute discretion, any award then outstanding will be assumed or will be substituted by us or by the successor corporation in the merger or sale or by any affiliate thereof under substantially the same terms as the award. In the event that awards are not assumed or substituted for equivalent awards, the committee administering the 2018 Plan may (i) provide for a grantee to have the right to exercise an award, or otherwise accelerate vesting of an award, as to all or part of the shares covered thereby, including shares covered by the award which would not otherwise be exercisable or vested, and/or (ii) provide for the cancelation of each outstanding award at the closing of the merger or sale, and payment to the grantee. In the event of a merger or sale, the committee administering the 2018 Plan may, without the consent of the grantee, amend, modify or terminate awards as the committee will deem in good faith to be appropriate.

## 2019 Equity-Based Incentive Plan

*Effective Date and Shares Reserved.* On February 28, 2019, our board of directors approved our 2019 Equity-Based Incentive Plan, or the 2019 Plan, which became effective upon shareholder approval on March 21, 2019. Our 2019 Plan replaced our 2007 Plan and our 2018 Plan, or the Prior Plans, under which further grants will not be made. The 2019 Plan generally allows for the grant of options, restricted shares, restricted share units and other share-based awards to our and our affiliates' employees, directors, officers, consultants and advisors. The 2019 Plan enables us to issue awards under varying tax regimes, including Section 102 and Section 3(i) awards pursuant to the Israeli Tax Ordinance and incentive stock options within the meaning of Section 422 of the Code. The maximum aggregate number of shares that may be issued pursuant to awards under the 2019 Plan is the sum of (a) 1,833,333 shares plus (b) on January 1 of each calendar year during the term of the 2019 Plan commencing in 2020, a number of shares equal to the lesser of: (i) an amount determined by our board of directors, if so determined prior to the January 1 of the calendar year in which the increase will occur, (ii) 5% of the total number of shares outstanding on December 31 of the immediately preceding calendar year and (iii) 5,000,000 shares.

Additionally, any share (i) underlying an award under the 2019 Plan or the Prior Plans (in an amount not to exceed 813,515 shares under the Prior Plans) that has expired, or was canceled, terminated, forfeited, repurchased or settled in cash in lieu of issuance of shares, for any reason, without having been exercised, (ii) tendered to pay the exercise price of an award (or the exercise price or other purchase price of any option or other award under the Prior Plans), or withholding tax obligations with respect to an award (or any awards under the Prior Plans), or (iii) subject to an award (or any award under the Prior Plans) that is not delivered to a grantee because such shares are withheld to pay the exercise price (or of any award under the Prior Plans), or withholding tax obligations with respect to such award (or such other award) will automatically be available for grant under the 2019 Plan. As of February 19, 2021, options to purchase a total of 2,765,867 shares and 1,286,578 unvested RSUs were outstanding under the 2019 Plan. In addition, our board of directors approved the grant of 1,233,100 RSUs to certain of our employees, which grant became effective on March 1, 2021.

*Plan Administration.* Either our board of directors or a committee established by our board of directors administers the 2019 Plan, and such administrator will have full authority in its discretion to determine (i) eligible grantees, (ii) grants of awards and setting the terms and provisions of award agreements (which need not be identical) and any other agreements or instruments under which awards are made, including the number of shares underlying each award and the class of shares underlying each award (if more than one class was designated by our board of directors), (iii) the time or times at which awards will be granted, (iv) the terms, conditions and restrictions applicable to each award (which need not be identical) and any shares acquired upon the exercise or (if applicable) vesting thereof, (v) to accelerate, continue, extend or defer the exercisability of any award or the vesting thereof, including with respect to the period following a grantee's termination of employment or other service, (vi) the interpretation of the 2019 Plan and any award agreement and the meaning, interpretation and applicability of terms referred to in applicable laws, (vii) policies, guidelines, rules and regulations relating to and for carrying out the 2019 Plan, and any amendment, supplement or rescission thereof, as it may deem appropriate, (viii) to adopt supplements to, or alternative versions of, the 2019 Plan, including, without limitation, as it deems necessary or desirable to comply with the laws of, or to accommodate the tax regime or custom of, foreign jurisdictions whose citizens or residents may be granted awards, (ix) the fair market value of the shares or other property, (x) the tax track (capital gains, ordinary income track or any other track available under the Section 102 of the Israeli Tax Ordinance) for the purpose of Section 102 to the Israeli Tax Ordinance, (xi) the authorization and approval of conversion, substitution, cancellation or suspension under and in accordance with the 2019 Plan of any or all awards or shares, (xii) the amendment, modification, waiver or supplement of the terms of each outstanding award (with the consent of the applicable grantee, if such amendments refers to the increase of the exercise price of awards or reduction of the number of shares underlying an award (but, in each case, other than as a result of an adjustment or exercise of rights in accordance with the provisions of the 2019 Plan) unless otherwise provided under the terms of the 2019 Plan, (xiii) without limiting the generality of the foregoing, and subject to the provisions of applicable law, to grant to a grantee who is the holder of an outstanding award, in exchange for the cancellation of such award, a new award having an exercise price lower than that provided in the award so canceled and containing such other terms and conditions as the committee may prescribe in accordance with the provisions of the 2019 Plan or to set a new exercise price for the same award lower than that previously provided in the award, (xiv) to correct any defect, supply any omission or reconcile any inconsistency in the 2019 Plan or any award agreement and all other determinations and take such other actions with respect to the 2019 Plan or any award as it may deem advisable to the extent not inconsistent with the provisions of the 2019 Plan or applicable law, (xv) to designate any of our officers or other persons to manage the day to day administration of the awards granted under the 2019 Plan or authorize any of them to act on behalf of the committee with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the committee herein, (xvi) to determine that awards, shares issuable upon the exercise or (if applicable) vesting of awards and/or any securities issued or distributed with respect thereto, shall be allocated or issued to, or held by, the representative in trust for the benefit of the grantees and (xvii) any other matter which is necessary or desirable for, or incidental to, the administration of the 2019 Plan and any award thereunder. The board of directors and the committee need not take the same action or determination with respect to all awards, with respect to certain types of awards, with respect to all service providers or any certain type of service providers and actions and determinations may differ as among the grantees, and as between the grantees and any other holders of our securities. The board of directors may, at any time, suspend, terminate, modify, or amend the 2019 Plan, whether retroactively or prospectively.

*Types and Terms and Conditions of Awards.* The committee may grant awards intended to qualify as an incentive stock option, non-qualified stock option, Section 102 award, Section 3(i) award, or other designations under other regimes. The 2019 Plan generally requires that incentive stock options have an exercise price that is not less than 100% of the fair market value of a share underlying such options or 110% in case of an employee who at the time of the grant owns shares possessing more than 10% of the total combined voting power of all classes of our shares or of any of our subsidiaries on the date of grant of such options or such other price as may be determined pursuant to the Code. The exercise price of any other awards granted will be determined by the committee.

The exercise period of an option award will be 10 years from the date of grant of the award unless otherwise determined by the committee, but subject to the vesting and the early termination provisions, provided that the period of an incentive stock option granted to an employee who at the time of the grant owns shares possessing more than 10% of the total combined voting power of all classes of our shares or of any of our subsidiaries, shall not exceed five years from the date of grant. Except as described below, an award generally may not be exercised unless the grantee is then in our employ or service and unless the grantee has remained continuously so employed since the date of grant of the award and throughout the vesting dates. In the event that the employment or service of a grantee terminates (other than by reason of death, disability or retirement), unless otherwise determined by the committee, all awards of such grantee that are unvested at the time of such termination shall terminate on the date of such termination, and all awards of such grantee that are vested and exercisable at the time of such termination may, unless earlier terminated in accordance with their terms, be exercised within up to three months after the date of such termination (or such different period as the committee will prescribe), but in any event no later than the date of expiration of the award's term as set forth in the award agreement or pursuant to this 2019 Plan. In the event of a grantee's death during employment or service or within three months following such grantee's termination, (or such longer period as determined by the committee), or in the event of a grantee's termination due to disability, all of the grantee's vested awards may be exercised at any time within one year after such death or disability (or such longer period as determined by the committee). In the event of a grantee's retirement, all of the grantee's vested awards, unless earlier terminated in accordance with their terms, may be exercised at any time within the three month period following such retirement (or such different period as the committee shall prescribe). If we (or our affiliate, when applicable) terminate the grantee's employment or service for cause (as defined in the 2019 Plan), or if at any time during the exercise period (whether prior to and after termination of employment or service, and whether or not the grantee's employment or service is terminated by either party as a result thereof), facts or circumstances arise or are discovered with respect to the grantee that would have constituted cause, all awards theretofore granted to such grantee (whether vested or not) shall, to the extent not theretofore exercised, terminate on the date of such termination (or on such subsequent date on which such facts or circumstances arise or are discovered, as the case may be) unless otherwise determined by the committee.

Section 102 of the Israeli Tax Ordinance allows our employees, directors and executive officers who are not controlling shareholders and are Israeli residents for tax purposes to receive favorable tax treatment for share-based awards. Section 102 includes two alternatives for tax treatment involving the issuance of awards to a trustee for the benefit of the grantees and also includes an additional alternative for the issuance of awards directly to the grantee. We elected the "capital gain track" pursuant to Section 102(b)(2) of the Israeli Tax Ordinance for grants to eligible Israeli grantees as provided above, which may allow favorable tax treatment for such grantees. In order to comply with the terms of the capital gain track, all awards granted under the 2019 Plan and subject to the provisions of Section 102 of the Israeli Tax Ordinance, as well as the shares issued upon exercise of such awards and any rights granted thereunder, including bonus shares, must be registered in the name of a trustee selected by the board and held in trust for the benefit of the relevant grantee for the requisite period prescribed by the Israeli Tax Ordinance or such longer period as set by the committee. The trustee may release these awards or shares to the holders thereof after the expiration of the required statutory holding period, provided that the trustee has received an acknowledgment from the Israeli Tax Authority that the grantee paid all applicable taxes, or the trustee and/or us and/or our affiliate withholds all applicable taxes and compulsory payments due. Our non-employee service providers and controlling shareholders may only be granted options or RSUs under Section 3(i) of the Israeli Tax Ordinance, which will be taxed as ordinary income upon the exercise of such awards into shares.

The administrator may grant restricted share units, or RSUs, under the 2019 Plan, which are awards covering a number of shares that are settled, if vested, by issuance of those shares. The award agreement for any restricted shares granted will provide the vesting schedule and purchase price, if any, for the restricted shares. If a grantee's employment or services to us or any of our affiliates terminates for any reason prior to the vesting of such grantee's restricted shares, any shares that remain subject to vesting will be forfeited by such grantee. No payment of exercise price (subject to applicable law and the terms of the award agreement) will be required as consideration for RSUs.

The administrator may grant other awards under the 2019 Plan, including shares (which may, but need not, be restricted shares), cash, a combination of cash and shares, awards denominated in share units, and share appreciation rights. However, to qualify as Section 102 or Section 3(i) awards pursuant to the Israeli Tax Ordinance, the award must be share-based compensation only and not cash compensation or any award that is settled in cash.

*Adjustment Provisions.* In the event of a division or subdivision of our outstanding share capital, any distribution of bonus shares (share split), consolidation or combination of our share capital (reverse stock split), reclassification with respect to our shares or any similar recapitalization events, a merger (including, a reverse merger and a reverse triangular merger), consolidation, amalgamation or like transaction of us with or into another corporation, reorganization (which may include a combination or exchange of shares, spin-off or other corporate divestiture or division, or other similar occurrences), the committee shall have the authority to make, without the need for a consent of any holder of an award, such adjustments as determined by the committee to be appropriate, in its discretion, in order to adjust (i) the number and class of shares reserved and available for grants of awards, (ii) the number and class of shares covered by outstanding awards, (iii) the exercise price per share covered by any award, (iv) the terms and conditions concerning vesting and exercisability and the term and duration of the outstanding awards and (v) any other terms of the award that in the opinion of the committee should be adjusted.

In the event of (i) a sale of all or substantially all of our assets, or a sale (including an exchange) of all or substantially all of our shares, to any person, or a purchase by any of our shareholders or by an affiliate of such shareholder, of all or substantially all of our shares held by all or substantially all other shareholders or by other shareholders who are not affiliated with such acquiring party; (ii) a merger (including, a reverse merger and a reverse triangular merger), consolidation, amalgamation or like transaction of us with or into another corporation; (iii) a scheme of arrangement for the purpose of effecting such sale, merger, consolidation, amalgamation or other transaction; (iv) change in board event, which means any time at which individuals who, as of the effective date of the 2019 Plan, constitute the incumbent board cease for any reason to constitute at least a majority of the board; provided, however, that any individual becoming a director subsequent to the effective date of the 2019 Plan whose election, or nomination for election by our shareholders, was approved by a vote of at least a majority of the directors then comprising the incumbent board shall be considered as though such individual were a member of the incumbent board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the board; (v) approval by our shareholders of a complete liquidation or dissolution of the company; or (vi) such other transaction or set of circumstances that is determined by the board (being the incumbent board in case of a change in board event), in its discretion, to be a transaction subject to these provisions of the 2019 Plan; excluding any of the above transactions in clauses (i) through (v) if the board (being the incumbent board in case of a change in board event) determines that such transaction should be excluded from the definition hereof and the applicability of this provision of the 2019 Plan, any award then outstanding will be assumed or will be substituted by us or by the successor corporation in such change in control or by any affiliate thereof, as determined by the committee in its discretion, under terms as determined by the committee or the terms of the 2019 Plan applied by the successor corporation to such assumed or substituted award, unless otherwise determined by the sole and absolute discretion of the committee. Regardless of whether awards are assumed or substituted the committee may (but will not be obligated to), in its sole discretion: (a) provide for grantees to have the right to exercise their awards or otherwise for the acceleration of vesting of award in respect of all or part of the shares covered by the awards which would not otherwise be exercisable or vested, under such terms and conditions as the committee will determine, including the cancelation of all unexercised awards (whether vested or unvested) upon or immediately prior to the closing of the change in control; and/or (b) provide for the cancelation of each outstanding and unexercised award at or immediately prior to the closing of the change in control, and payment to the grantees of an amount in cash, our shares, the acquirer or of a corporation or other business entity which is a party to the change in control or other property, as determined by the committee to be fair in the circumstances, and subject to such terms and conditions as determined by the committee. Notwithstanding the foregoing, in the event of change in control, the committee may determine, in its sole discretion, that upon completion of such change in control, the terms of any award be otherwise amended, modified or terminated, as the committee deems in good faith to be appropriate.

*Miscellaneous Provisions.* Awards under the 2019 Plan are not transferable other than by will or by the laws of descent and distribution or to a grantee's designated beneficiary, unless, in the case of awards other than incentive stock options, otherwise determined by our committee or under the 2019 Plan, and generally expire 10 years following the grant date. The board of directors may at any time amend, suspend, terminate or modify the 2019 Plan and the administrator may at any time modify or amend any award under the 2019 Plan.

### **C. Board Practices**

#### **Corporate Governance Practices**

Under the Israeli Companies Law, companies incorporated under the laws of the State of Israel whose shares are publicly traded, including companies with shares listed on the NYSE, are considered public companies under Israeli law and are required to comply with various corporate governance requirements under Israeli law relating to matters such as external directors, the audit committee, the compensation committee and an internal auditor. This is the case even though our shares are not listed on a stock exchange in Israel. Subject to certain exceptions, these requirements are in addition to the corporate governance requirements imposed by NYSE rules and other applicable provisions of U.S. securities laws to which we are subject (as a foreign private issuer). Under NYSE rules, a foreign private issuer, such as us, may generally follow its home country rules of corporate governance in lieu of the comparable NYSE corporate governance requirements, except for certain matters, including the composition and responsibilities of the audit committee and the independence of its members within the meaning of the rules and regulations of the SEC.

We currently comply with the rules generally applicable to U.S. domestic companies listed on the NYSE. We may in the future decide to use the foreign private issuer exemption with respect to certain NYSE corporate governance requirements.

### **Board of Directors and Executive Officers**

Under the Israeli Companies Law, our board of directors determines our policies and supervises the performance of our chief executive officer. Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders or to management. Our executive officers are responsible for our day-to-day management. Our executive officers serve at the discretion of our board of directors, subject to the terms of their respective employment agreements.

#### ***Independent Directors***

We comply with NYSE rules, which require that a majority of our directors are independent. Our board of directors has determined that all of our directors, other than Reuven Kitov and Reuven Harrison, qualify as independent under such rules.

#### ***Board Composition and Election***

Under our amended and restated articles of association, the number of directors on our board of directors must be no less than six and no more than 10, including any director appointed by one or both of our founders, or a founder director, pursuant to the appointment rights described under “—Appointment Rights.” The minimum and maximum number of directors may be changed, at any time and from time to time, by a special vote of the holders of at least 66 2/3% of our outstanding shares.

Other than any founder director, our directors are divided into three classes with staggered three-year terms. Each class of directors consists, as nearly as possible, of 1/3 of the total number of directors constituting the entire board of directors (other than any founder director). At each annual general meeting of our shareholders, the election or re-election of directors following the expiration of the term of office of the directors of that class of directors is for a term of office that expires on the third annual general meeting following such election or re-election, such that from 2020 and after, at each annual general meeting the term of office of only one class of directors will expire. Each director, aside from any founder director, holds office until the annual general meeting of our shareholders for the year in which his or her term expires and until his or her successor is duly appointed, unless the tenure of such director expires earlier pursuant to the Israeli Companies Law upon the occurrence of certain events or unless removed from office by a vote of the holders of at least 66 2/3% of the total voting power of our shareholders at a general meeting of our shareholders in accordance with our amended and restated articles of association.

Our directors who are not founder directors are divided among the three classes as follows:

- the Class I directors consists of Edouard Cukierman, Reuven Harrison and Yuval Shachar, and their terms will expire at our annual general meeting of shareholders to be held in 2023;
- the Class II directors, consists of Ohad Finkelstein, Reuven Kitov and Brian Gumbel and their terms will expire at our annual general meeting of shareholders to be held in 2021; and
- the Class III directors consists of Yair Shamir and Tom Schodorf and their terms will expire at our annual general meeting of shareholders to be held in 2022.

Peter Campbell and Dafna Gruber previously served as our external directors until May 2020 upon our board of directors’ election to opt-out of the external director requirements under the Companies Law (described below in “External Directors”). Pursuant to the transition rules provided under the Companies Law, each of Peter Campbell and Dafna Gruber shall have the right to remain in office, at their option, after the exemption is adopted, until the earlier of such directors’ original end of term of office or the second annual meeting of shareholders following the adoption of the exemption, which shall be at our annual general meeting of shareholders to be held in 2021.

#### ***External Directors***

Under the Companies Law, companies incorporated under the laws of the State of Israel that are public companies, including companies with shares listed on the New York Stock Exchange, are required to appoint at least two external directors.

Pursuant to regulations enacted under the Companies Law, the board of directors of a public company whose shares are listed on certain non-Israeli stock exchanges, including the New York Stock Exchange, that do not have a controlling shareholder (as such term is defined in the Companies Law), may, subject to certain conditions, elect to “opt-out” of the requirements of the Companies Law regarding the election of external directors and to the composition of the audit committee and compensation committee, provided that the company complies with the requirements as to director independence and audit committee and compensation committee composition applicable to companies that are incorporated in the jurisdiction in which its stock exchange is located. In May 2020, our board of directors elected to opt-out of the Companies Law requirements to appoint external directors and related Companies Law rules concerning the composition of the audit committee and compensation committee.

The foregoing exemptions will continue to be available to us so long as: (i) we do not have a “controlling shareholder” (as such term is defined under the Companies Law), (ii) our shares are traded on a U.S. stock exchange, including the New York Stock Exchange, and (iii) we comply with the New York Stock Exchange listing rules applicable to domestic U.S. companies. If in the future we were to have a controlling shareholder, we would again be required to comply with the requirements relating to external directors and composition of the audit committee and compensation committee.

Under the Companies Law, the term “controlling shareholder” means a shareholder with the ability to direct the activities of the company, other than by virtue of being an office holder. A shareholder is presumed to be a controlling shareholder if the shareholder holds 50% or more of the voting rights in a company or has the right to appoint the majority of the directors of the company or its general manager. For the purpose of approving transactions with controlling shareholders, the term “controlling shareholder” also includes any shareholder that holds 25% or more of the voting rights of the company if no other shareholder holds more than 50% of the voting rights in the company.

### ***Lead Independent Director***

As approved by our board of directors, for so long as the same person serves both as our Chief Executive Officer and Chairman of the Board, the non-executive board members will select a Lead Independent Director from among the independent directors of the Board. If at any meeting of the Board the Lead Independent Director is not present, a majority of the independent members of the Board present will select an independent member of the Board to act as Lead Independent Director for the purpose and duration of such meeting. The authorities and responsibilities of the Lead Independent Director include, but are not limited to, the following:

- Presiding at all meetings of the Board of Directors at which the Chairman is not present, including executive sessions of the independent directors;
- Serving as a liaison between the Chairman and the independent directors;
- Having the authority to recommend that the Board of Directors retain consultants or advisers that report directly to the Board of Directors;
- Approving information sent to the Board of Directors;
- Approving meeting agendas for the Board of Directors;
- Approving meeting schedules to assure that there is sufficient time for discussion of all agenda items;
- Having the authority to call meetings of the independent directors; and
- If requested by major shareholders, ensuring that he is available for consultation and direct communication.

As Mr. Reuven Kitov is currently the Company’s Co-Founder, Chairman of the Board of Directors and Chief Executive Officer, the non-executive board members elected Tom Schodorf to be the Lead Independent Director.

### ***Appointment Rights***

Under our amended and restated articles of association, our founders, Reuven Kitov and Reuven Harrison, jointly have the right to appoint one director to our board of directors so long as they each hold voting control over 2% of our outstanding ordinary shares. Pursuant to an agreement between them, Reuven Kitov will designate the director to be appointed in this instance subject to prior consultation with Reuven Harrison. If only one of the founders holds voting control over 2% of our outstanding ordinary shares, such founder has the sole right to appoint one director. The appointment rights of our founders are suspended if either founder is otherwise serving on our board of directors. The term of office for a founder director expires if the appointment rights are suspended or if the founders or founder, as the case may be, no longer holds the requisite voting control.

Under our amended and restated articles of association, our board of directors may appoint new directors to fill vacancies (whether such vacancy is due to a director no longer serving or due to the number of directors serving being less than the maximum required in our amended and restated articles of association). Our amended and restated articles of association provide that the term of a director appointed by our board of directors to fill any vacancy will be for the remaining term of office of the director(s) whose office(s) have been vacated. See “Item 6.C. Board Practices—External Directors” for a description of the exemption from the requirements under the Companies Law to appoint external directors.

### ***Other Considerations***

Under the Israeli Companies Law, the chief executive officer of a public company may not serve as the chairman of the board of directors of that company unless approved by a special majority of shareholders. However, if the roles of chief executive officer and chairman of the board of directors are held by the same person and this arrangement was approved by the company’s shareholders prior to its initial public offering and is described in the company’s initial public offering prospectus, shareholder approval is only required upon the lapse of the fifth anniversary of the initial public offering. Reuven Kitov, our Chief Executive Officer, also serves as our Chairman of the board of directors, as was approved by our shareholders in 2019 prior to our initial public offering. We may, at the conclusion of the five-year period, and again thereafter, seek further shareholder approval for the renewal of such dual role for up to an additional three years at a time.

In addition, under the Israeli Companies Law, our board of directors must determine the minimum number of directors who are required to have “accounting and financial expertise.” Under applicable regulations, a director with accounting and financial expertise is a director who, by reason of his or her education, professional experience and skill, possesses an expertise in and understanding of financial and accounting matters and financial statements. He or she must be able to thoroughly comprehend the financial statements of the company and initiate debate regarding the manner in which financial information is presented. In determining the number of directors required to have such expertise, the board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that we require at least one director with the requisite accounting and financial expertise, and it has determined Dafna Gruber has such expertise.

There are no familial relationships among any of our office holders (including directors).

### **Audit Committee**

#### ***Israeli Companies Law Requirements***

Under the Companies Law, the board of directors of a public company must appoint an audit committee comprised of at least three directors. Our audit committee consists of three independent directors, Tom Schodorf (Lead Independent Director), Peter Campbell and Dafna Gruber.

#### ***Listing Requirements***

Under NYSE corporate governance requirements, we are required to maintain an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise.

Our audit committee consists of Dafna Gruber, Peter Campbell and Tom Schodorf. Dafna Gruber serves as the chairperson of our audit committee. All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and NYSE corporate governance rules. Our board of directors has determined in its business judgment that Dafna Gruber is an audit committee financial expert as defined by the SEC rules and has the requisite accounting or related financial management expertise as required by NYSE corporate governance requirements. Each of Dafna Gruber, Peter Campbell and Tom Schodorf is “independent” as such term is defined in Rule 10A-3(b)(1) under the Exchange Act.

#### ***Approval of Transactions with Related Parties***

The approval of the audit committee is required to effect specified actions and transactions with office holders and controlling shareholders and their relatives, or in which they have a personal interest. See “Item 6.C. Board Practices—Fiduciary Duties and Approval of Specified Related Party Transactions and Compensation under Israeli Law.” The audit committee may not approve an action or a transaction with a controlling shareholder or with an office holder unless, among other things, at the time of approval the audit committee meets the composition requirements under the Israeli Companies Law.

### ***Audit Committee Role***

Our board of directors has adopted an audit committee charter that sets forth the responsibilities of the audit committee consistent with the Israeli Companies Law, SEC rules and NYSE corporate governance requirements, which include, among other responsibilities:

- retaining and terminating our independent auditors, subject to board of directors and shareholder ratification;
- overseeing the independence, compensation and performance of the company's independent auditors;
- the appointment, compensation, retention and oversight of any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit services;
- pre-approval of audit and non-audit services to be provided by the independent auditors;
- reviewing with management and our independent directors our financial statements prior to their submission to the SEC; and
- approval of certain transactions with office holders and controlling shareholders, as described below, and other related party transactions.

Additionally, under the Israeli Companies Law, the role of the audit committee includes the identification of irregularities in our business management, among other things, by consulting with the internal auditor or our independent auditors and suggesting an appropriate course of action to the board of directors. In addition, the audit committee or the board of directors, as set forth in the articles of association of the company, is required to approve the yearly or periodic work plan proposed by the internal auditor. The audit committee is required to assess the company's internal audit system and the performance of its internal auditor. The Israeli Companies Law also requires that the audit committee assess the scope of the work and compensation of the company's external auditor. In addition, the audit committee is required to determine whether certain related party actions and transactions are "material" or "extraordinary" for the purpose of the requisite approval procedures under the Israeli Companies Law and whether certain transactions with a controlling shareholder will be subject to a competitive procedure (regardless of whether such transactions are deemed extraordinary transactions) and to set forth the approval process for transactions that are "non-negligible" (meaning, transactions with a controlling shareholder that are classified by the audit committee as non-negligible, even though they are not deemed extraordinary transactions), as well as determining which types of transactions would require the approval of the audit committee, optionally based on criteria which may be determined annually in advance by the audit committee.

The audit committee charter states that the audit committee is empowered to conduct or authorize investigations into any matters within its scope of responsibilities.

### ***Compensation Committee***

Under the Companies Law, the board of directors of any public company must appoint a compensation committee. Our compensation committee consists of three independent directors, Peter Campbell, Dafna Gruber and Brian Gumbel. Peter Campbell serves as the chairman of our compensation committee.

### ***Listing Requirements***

Under SEC and NYSE rules, there are heightened independence standards for members of the compensation committee, including a prohibition against the receipt of any compensation from us other than standard supervisory board member fees. Although foreign private issuers are not required to meet this heightened standard or the requirements general for a compensation committee, our board of directors has determined that all of our compensation committee members meet this heightened standard and other independence requirements. Each of Peter Campbell, Dafna Gruber and Yair Shamir is "independent" and a "non-employee director" as such terms are defined in Rule 10A-3(b)(1) under the Exchange Act.

### ***Compensation Committee Role***

Our board of directors has adopted a compensation committee charter that sets forth the responsibilities of the compensation committee consistent with the Israeli Companies Law, SEC rules and NYSE corporate governance requirements, which include, among other responsibilities:

- recommending to the board of directors the compensation policy for directors and executive officers, and to recommend to the board of directors once every three years whether the compensation policy that had been approved should be extended for a period of more than three years;
- recommending to the board of directors updates to the compensation policy, from time to time, and examine its implementation;



- deciding whether to approve the terms of office and employment of directors and executive officers that require approval of the compensation committee;
- deciding whether the compensation terms of the chief executive officer, which were determined pursuant to the compensation policy, will be exempted from approval by the shareholders because such approval would harm the ability to engage the chief executive officer; and
- administering and, where applicable, recommending to our board of directors regarding the awarding of employee equity grants.

### ***Compensation Policy***

In general, under the Israeli Companies Law, a public company must have a compensation policy approved by the board of directors after receiving and considering the recommendations of the compensation committee. In addition, the compensation policy requires the approval of the general meeting of the shareholders, which approval requires one of the following: (i) the majority of shareholder votes counted at a general meeting including the majority of all of the votes of those shareholders who are non-controlling shareholders and do not have a personal interest in the approval of the compensation policy, who vote at the meeting (excluding abstentions) or (ii) the total number of votes against the proposal among the shareholders mentioned in clause (i) above does exceed 2% of the voting rights in the company. However, under special circumstances, the board of directors may override the shareholders' decision and approve the compensation policy despite the objection of the shareholders on the condition that the compensation committee and then the board of directors decide, on the basis of detailed arguments and after discussing again the compensation policy, that approval of the compensation policy, despite the objection of the meeting of shareholders, is for the benefit of the company.

If a company that initially offers its securities to the public adopts a compensation policy in advance of its initial public offering, and describes it in its prospectus, as we did in the prospectus for our initial public offering, then such compensation policy shall be deemed a validly adopted policy in accordance with the Israeli Companies Law requirements described above. Furthermore, if the compensation policy is set in accordance with the aforementioned relief, then it will remain in effect for term of five years from the date such company has become a public company.

The compensation policy must be based on certain considerations, include certain provisions and needs to reference certain matters as set forth in the Israeli Companies Law.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, business plan and long-term strategy, and creation of appropriate incentives for office holders. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policy must furthermore consider the following additional factors:

- the education, skills, experience, expertise and accomplishments of the relevant office holder;
- the office holder's position, responsibilities and prior compensation agreements with that office holder;
- the ratio between the cost of the terms of employment of an office holder and the cost of the employment of other employees of the company, including employees employed through contractors who provide services to the company, in particular the ratio between such cost, the average and median salary of the employees of the company, as well as the impact of such disparities on the work relationships in the company;
- if the terms of employment include variable components—the possibility of reducing variable components at the discretion of the board of directors and the possibility of setting a limit on the value of non-cash variable equity-based components; and
- if the terms of employment include severance compensation—the term of employment or office of the office holder, the terms of his or her compensation during such period, the company's performance during the such period, his or her individual contribution to the achievement of the company goals and the maximization of its profits and the circumstances under which he or she is leaving the company.

The compensation policy must also include:

- with regard to variable components:
  - with the exception of office holders who report directly to the chief executive officer, determining the variable components on long-term performance basis and on measurable criteria; however, the company may determine that an immaterial part of the variable components of the compensation package of an office holder's shall be awarded based on non-measurable criteria, if such amount is not higher than three monthly salaries per annum, while taking into account such office holder contribution to the company; and
  - the ratio between variable and fixed components, as well as the limit of the values of variable components at the time of their grant;
- a condition under which the office holder will return to the company, according to conditions to be set forth in the compensation policy, any amounts paid as part of his or her terms of employment, if such amounts were paid based on information later to be discovered to be wrong, and such information was restated in the company's financial statements;
- the minimum holding or vesting period of variable equity-based components to be set in the terms of office or employment, as applicable, while taking into consideration long-term incentives; and
- a limit to retirement grants.

Our compensation policy, which was adopted and approved on March 21, 2019 and amended on July 29, 2020, is designed to promote retention and motivation of directors and executive officers, incentivize superior individual excellence, align the interests of our directors and executive officers with our long-term performance and provide a risk management tool. To that end, a portion of an executive officer compensation package is targeted to reflect our short- and long-term goals, as well as the executive officer's individual performance. On the other hand, our compensation policy includes measures designed to reduce the executive officer's incentives to take excessive risks that may harm us in the long-term, such as limits on the value of cash bonuses and equity-based compensation, limitations on the ratio between the variable and the total compensation of an executive officer and minimum vesting periods for equity-based compensation.

Our compensation policy also addresses each of our executive officers' individual characteristics (such as his or her respective position, education, scope of responsibilities and contribution to the attainment of our goals) as the basis for compensation variation among our executive officers, and considers the internal ratios between compensation of our executive officers and directors and other employees. Pursuant to our compensation policy, the compensation that may be granted to an executive officer may include: base salary, annual bonuses and other cash bonuses (such as a signing bonus and special bonuses with respect to any special achievements, such as outstanding personal achievement, outstanding personal effort or outstanding company performance), equity-based compensation, benefits and retirement and termination of service arrangements. All cash bonuses are limited to a maximum amount linked to the executive officer's base salary. In addition, the total variable compensation components (cash bonuses and equity-based compensation) may not exceed 95% of each executive officer's total compensation package with respect to any given calendar year.

An annual cash bonus may be awarded to executive officers upon the attainment of pre-set periodic objectives determined by the compensation committee and individual targets. The annual cash bonus, which may be granted to our executive officers other than our chief executive officer, is based on performance objectives and a discretionary evaluation of the executive officer's overall performance by our chief executive officer and subject to minimum thresholds. The annual cash bonus that may be granted to executive officers other than our chief executive officer may be based entirely on a discretionary evaluation. Furthermore, the performance objectives are recommended by our chief executive officer and approved by our compensation committee (and, if required by law, by our board of directors).

The performance measurable objectives of our chief executive officer are determined annually by our compensation committee and board of directors, and include the weight to be assigned to each achievement in the overall evaluation. A less significant portion of the chief executive officer's annual cash bonus may be based on a discretionary evaluation of the chief executive officer's overall performance by the compensation committee and the board of directors based on quantitative and qualitative criteria.

The equity-based compensation under our compensation policy for our executive officers (including members of our board of directors) is designed in a manner consistent with the underlying objectives in determining the base salary and the annual cash bonus, with its main objectives being to enhance the alignment between the executive officers' interests with our long-term interests and those of our shareholders and to strengthen the retention and the motivation of executive officers in the long term. Our compensation policy provides for executive officer compensation in the form of share options or other equity-based awards, such as restricted shares and restricted share units, in accordance with our equity incentive plans then in place. All equity-based incentives granted to executive officers shall be subject to vesting periods in order to promote long-term retention of the executive officers. The equity-based compensation shall be granted from time to time and be individually determined and awarded according to the performance, educational background, prior business experience, qualifications, role and the personal responsibilities of the executive officer.

In addition, our compensation policy contains compensation recovery provisions which allows us under certain conditions to recover bonuses paid in excess, enables our chief executive officer to approve an immaterial change in the terms of employment of an executive officer (provided that the changes of the terms of employment are in accordance our compensation policy) and allows us to exculpate, indemnify and insure our executive officers and directors subject to certain limitations set forth thereto.

Our compensation policy also provides for compensation to the members of our board of directors either (i) in accordance with the amounts provided in the Israeli Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director) of 2000, as amended by the Israeli Companies Regulations (Relief for Public Companies Traded in Stock Exchange Outside of Israel) of 2000, as such regulations may be amended from time to time, or (ii) in accordance with the amounts determined in our compensation policy.

#### **Nominating and Corporate Governance Committee**

Our nominating and corporate governance committee consists of Dafna Gruber, Yuval Shachar and Yair Shamir. Yuval Shachar serves as the chairperson of our nominating and corporate governance committee.

#### ***Listing Requirements***

Under NYSE corporate governance requirements, we are required to maintain a nominating and corporate governance committee composed only of independent directors. Although foreign private issuers are not required to comply with independent nominating and corporate governance committee standards under the NYSE corporate governance requirements, our board of directors has determined that all of our nominating and corporate governance committee members meet such standards.

#### ***Nominating and Corporate Governance Committee Role***

Our board of directors has adopted a nominating and corporate governance committee charter that sets forth the responsibilities of the nominating and corporate governance committee consistent with the Israeli Companies Law, SEC rules and NYSE corporate governance requirements, which include, among other responsibilities:

- supporting and advising our board of directors in selecting director nominees, consistent with the criteria approved by our board of directors, who are best able to fulfill the responsibilities of a director;
- overseeing the evaluation of our board of directors and our management; and
- otherwise taking a leadership role in shaping our corporate governance establishing and maintaining effective corporate governance policies and practices, including developing and recommending to our board of directors a set of corporate governance guidelines applicable to our company.

#### **Internal Auditor**

Under the Israeli Companies Law, the board of directors of a public company must appoint an internal auditor based on the recommendation of the audit committee. The role of the internal auditor is, among other things, to examine whether a company's actions comply with applicable law and orderly business procedure. Under the Israeli Companies Law, the internal auditor may not be an interested party or an office holder or a relative of an interested party or of an office holder, nor may the internal auditor be the company's independent auditor or the representative of the same.

An "interested party" is defined in the Israeli Companies Law as (i) a holder of 5% or more of the issued share capital or voting power in a company, (ii) any person or entity who has the right to designate one or more directors or to designate the chief executive officer of the company or (iii) any person who serves as a director or as a chief executive officer of the company.

Chaikin, Cohen, Rubin & Co. has been appointed as our internal auditor.

## **Fiduciary Duties and Approval of Specified Related Party Transactions and Compensation under Israeli Law**

### ***Fiduciary Duties of Office Holders***

The Israeli Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company. The duty of care requires an office holder to act with the degree of skill and care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care includes, among other things, a duty to use reasonable means, in light of the circumstances, to obtain:

- information on the advisability of a given action brought for his or her approval or performed by virtue of his or her position; and
- all other important information pertaining to such action.

The duty of loyalty incumbent on an office holder requires him or her to act in good faith and for the benefit of the company, and includes, among other things, the duty to:

- refrain from any act involving a conflict of interest between the performance of his or her duties in the company and his or her other duties or personal affairs;
- refrain from any activity that is competitive with the business of the company;
- refrain from exploiting any business opportunity of the company for the purpose of gaining a personal advantage for himself or herself or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder received as a result of his or her position as an office holder.

### ***Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions***

Under the Israeli Companies Law, a company may approve an act specified above which would otherwise constitute a breach of the office holder's fiduciary duty, provided that the office holder acted in good faith, the act or its approval does not harm the company, and the office holder discloses to the company his or her personal interest in the transaction (including any significant fact or document) a reasonable time before the approval of such act. Any such approval is subject to the terms of the Israeli Companies Law, setting forth, among other things, the appropriate bodies of the company required to provide such approval, and the methods of obtaining such approval.

The Israeli Companies Law requires that an office holder promptly disclose to the company any direct or indirect personal interest that he or she may have and all related material information or documents known to him or her relating to any existing or proposed transaction by the company. An interested office holder's disclosure must be made promptly and, in any event, no later than the first meeting of the board of directors at which the transaction is considered. An office holder is not obliged to disclose such information if the personal interest of the office holder derives solely from the personal interest of his or her relative in a transaction that is not considered an extraordinary transaction.

If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by:

- the office holder's relatives (spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of these people); or
- any company in which the office holder or his or her relatives holds 5% or more of the shares or voting rights, serves as a director or general manager or has the right to appoint at least one director or the general manager.

Under the Israeli Companies Law, unless the articles of association of a company provide otherwise, a transaction with an office holder or with a third party in which the office holder has a personal interest, which is not an extraordinary transaction, requires approval by the board of directors or a committee authorized by the board of directors. Our amended and restated articles of association provide that such a transaction, which is not an extraordinary transaction, shall be approved by the board of directors or a committee of the board of directors or any other body or person (which has no personal interest in the transaction) authorized by the board of directors. If the transaction considered is an extraordinary transaction with an office holder or third party in which the office holder has a personal interest, then audit committee approval is required prior to approval by the board of directors. Under specific circumstances, shareholder approval may also be required. For the approval of compensation arrangements with directors and executive officers, see "Item 6.B. Compensation—Compensation of Directors and Executive Officers."

Any persons who have a personal interest in the approval of a transaction that is brought before a meeting of the board of directors or the audit committee may not be present at the meeting or vote on the matter. However, if the chairman of the board of directors or the chairman of the audit committee, as applicable, has determined that the presence of an office holder with a personal interest is required, such office holder may be present at the meeting for the purpose of presenting the matter. Notwithstanding the foregoing, a director who has a personal interest may be present at the meeting of the board of directors or the audit committee (as applicable) and vote on the matter if a majority of the members of the board of directors or the audit committee (as applicable) have a personal interest in the approval of such transaction. If a majority of the directors at a board of directors meeting have a personal interest in the transaction, such transaction also generally requires approval of the shareholders of the company.

A “personal interest” is defined under the Israeli Companies Law as the personal interest of a person in an action or in a transaction of the company, including the personal interest of such person’s relative or the interest of any other corporate body in which the person and/or such person’s relative is a director or general manager, a 5% shareholder or holds 5% or more of the issued and outstanding share capital of the company or of its voting rights, or has the right to appoint at least one director or the general manager, but excluding a personal interest stemming solely from the fact of holding shares in the company. A personal interest also includes (i) a personal interest of a person who votes according to a proxy of another person, including in the event that the other person has no personal interest, and (ii) a personal interest of a person who gave a proxy to another person to vote on his or her behalf regardless of whether the discretion of how to vote lies with the person voting.

An “extraordinary transaction” is defined under the Israeli Companies Law as any of the following:

- a transaction other than in the ordinary course of business;
- a transaction that is not on market terms; or
- a transaction that may have a material impact on the company’s profitability, assets or liabilities.

#### ***Disclosure of Personal Interests of a Controlling Shareholder and Approval of Transactions***

Pursuant to the Israeli Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest, and the terms of engagement of the company, directly or indirectly, with a controlling shareholder or a controlling shareholder’s relative (including through a corporation controlled by a controlling shareholder), regarding the company’s receipt of services from the controlling shareholder, and if such controlling shareholder is also an office holder or employee of the company, regarding his or her terms of employment, require the approval of each of (i) the audit committee (or the compensation committee with respect to the terms of the engagement as an office holder or employee, including insurance, indemnification and compensation), (ii) the board of directors and (iii) the shareholders, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

- a majority of the shares held by shareholders who have no personal interest in the transaction and are voting at the meeting must be voted in favor of approving the transaction, excluding abstentions; or
- the shares voted by shareholders who have no personal interest in the transaction who vote against the transaction represent no more than 2% of the voting rights in the company.

Such majority determined in accordance with the majority requirement described above is hereinafter referred to as the Compensation Special Majority Requirement.

Any such transaction for which the term is more than three years must be approved in the same manner every three years, unless with respect to certain transactions as permitted by the Companies Law, the audit committee has determined that a longer term is reasonable under the circumstances. In addition, transactions with a controlling shareholder or a controlling shareholder’s relative who serves as an executive officer in a company, directly or indirectly (including through a corporation under his control), involving the receipt of services by a company or their compensation can have a term of five years from the company’s initial public offering under certain circumstances.

The Israeli Companies Law requires that every shareholder that participates, in person or by proxy, in a vote regarding a transaction with a controlling shareholder, must indicate in advance or in the ballot whether or not that shareholder has a personal interest in the vote in question. Failure to so indicate generally results in the invalidation of that shareholder’s vote.

#### ***Disclosure of Compensation of Executive Officers***

For so long as we qualify as a foreign private issuer, we are not required to comply with the proxy rules applicable to U.S. domestic filers, including the requirement applicable to emerging growth companies to disclose the compensation of our chief executive officer and other two most highly compensated executive officers on an individual, rather than an aggregate, basis. Nevertheless, regulations promulgated under the Israeli Companies Law require us to disclose in the proxy statement for the annual general meeting of our shareholders (or to include a reference therein to other previously furnished public disclosure) the annual compensation of our five most highly compensated executive officers on an individual, rather than an aggregate, basis. This disclosure will not be as extensive as that required of a U.S. domestic issuer.

### ***Compensation of Directors and Executive Officers***

*Directors.* Under the Israeli Companies Law, the compensation of our directors requires the approval of our compensation committee, the subsequent approval of the board of directors and, unless exempted under regulations promulgated under the Israeli Companies Law, the approval of the shareholders at a general meeting. If the compensation of our directors is inconsistent with our compensation policy, then, provided that those provisions that must be included in the compensation policy according to the Companies Law have been considered by the compensation committee and board of directors, and provided that shareholder approval is obtained by the Compensation Special Majority Requirement.

*Executive Officers (other than the Chief Executive Officer).* The Israeli Companies Law requires the approval of the compensation of a public company's executive officers (other than the chief executive officer) in the following order: (i) the compensation committee, (ii) the company's board of directors and (iii) if such compensation arrangement is inconsistent with the company's compensation policy, the company's shareholders (the Compensation Special Majority Requirement). However, if the shareholders of the company do not approve a compensation arrangement with an executive officer that is inconsistent with the company's compensation policy, the compensation committee and board of directors may override the shareholders' decision if each of the compensation committee and the board of directors provide detailed reasons for their decision.

*Chief Executive Officer.* The Israeli Companies Law requires the approval of the compensation of a public company's chief executive officer in the following order: (i) the company's compensation committee, (ii) the company's board of directors and (iii) the company's shareholders (the Compensation Special Majority Requirement). However, if the shareholders of the company do not approve the compensation arrangement with the chief executive officer, the compensation committee and board of directors may override the shareholders' decision if each of the compensation committee and the board of directors provide a detailed report for their decision. The approval of each of the compensation committee and the board of directors should be in accordance with the company's compensation policy; however, in special circumstances, they may approve compensation terms of a chief executive officer that are inconsistent with such policy provided that they have considered those provisions that must be included in the compensation policy according to the Israeli Companies Law and that shareholder approval was obtained (by a special majority vote as discussed above with respect to the approval of director compensation). In addition, the compensation committee may waive the shareholder approval requirement with regards to the approval of the engagement terms of a candidate for the chief executive officer position, if the compensation committee determines that the compensation arrangement is consistent with the company's compensation policy, and that the chief executive officer did not have a prior business relationship with the company or a controlling shareholder of the company and that subjecting the approval of the engagement to a shareholder vote would impede the company's ability to employ the chief executive officer candidate.

### ***Duties of Shareholders***

Under the Israeli Companies Law, a shareholder has a duty to refrain from abusing its power in the company and to act in good faith and in an acceptable manner in exercising its rights and performing its obligations to the company and other shareholders, including, among other things, when voting at meetings of shareholders on the following matters:

- an amendment to the articles of association;
- an increase in the company's authorized share capital;
- a merger; and
- the approval of related party transactions and acts of office holders that require shareholder approval.

A shareholder also has a general duty to refrain from discriminating against other shareholders.

The remedies generally available upon a breach of contract also apply to a breach of the shareholder duties mentioned above, and in the event of discrimination against other shareholders, additional remedies may be available to the injured shareholder.

In addition, any controlling shareholder, any shareholder that knows that its vote can determine the outcome of a shareholder vote and any shareholder that, under a company's articles of association, has the power to appoint or prevent the appointment of an office holder, or any other power with respect to a company, is under a duty to act with fairness towards the company. The Israeli Companies Law does not describe the substance of this duty except to state that the remedies generally available upon a breach of contract also apply in the event of a breach of the duty to act with fairness, taking the shareholder's position in the company into account.

### ***Approval of Private Placements***

Under the Israeli Companies Law and the regulations promulgated thereunder, a private placement of securities of an Israeli public company whose shares are traded solely outside of Israel does not require approval at a general meeting of the shareholders of a company; provided however, that in special circumstances, such as a private placement, which is intended to obviate the need to conduct a special tender offer or a private placement which qualifies as a related party transaction, for which approval at a general meeting of the shareholders of a company is required. See “Item 10.B. Memorandum and Articles of Association—Acquisitions under Israeli Law.”

However, we are subject to NYSE corporate governance requirements relating to private placements.

### **Exculpation, Insurance and Indemnification of Directors and Officers**

Under the Israeli Companies Law, a company may not exculpate an office holder from liability for a breach of the duty of loyalty. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for damages caused to the company as a result of a breach of duty of care but only if a provision authorizing such exculpation is included in its articles of association. Our amended and restated articles of association include such a provision. The company may not exculpate in advance a director from liability arising from a breach of his or her duty of care in connection with a prohibited dividend or distribution to shareholders.

As permitted under the Israeli Companies Law, our amended and restated articles of association provide that we may indemnify an office holder in respect of the following liabilities, payments and expenses incurred for acts performed by him or her as an office holder, either in advance of an event or following an event:

- a monetary liability incurred by or imposed on the office holder in favor of another person pursuant to a court judgment, including pursuant to a settlement confirmed as judgment or arbitrator’s decision approved by a competent court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance, then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company’s activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking shall detail the abovementioned foreseen events and amount or criteria;
- reasonable litigation expenses, including reasonable attorneys’ fees, which were incurred by the office holder as a result of an investigation or proceeding filed against the office holder by an authority authorized to conduct such investigation or proceeding, provided that such investigation or proceeding was either (i) concluded without the filing of an indictment against such office holder and without the imposition on him of any monetary obligation in lieu of a criminal proceeding, (ii) concluded without the filing of an indictment against the office holder but with the imposition of a monetary obligation on the office holder in lieu of criminal proceedings for an offense that does not require proof of criminal intent or (iii) in connection with a monetary sanction;
- reasonable litigation expenses, including attorneys’ fees, incurred by the office holder or which were imposed on the office holder by a court (i) in a proceeding instituted against him or her by the company, on its behalf, or by a third party, (ii) in connection with criminal indictment of which the office holder was acquitted or (iii) in a criminal indictment which the office holder was convicted of an offense that does not require proof of criminal intent;
- expenses he or she incurs as a result of administrative proceedings that may be instituted against him or her under Israeli securities laws, if applicable, and payments made to injured persons under specific circumstances thereunder; and
- any other matter in respect of which it is permitted or will be permitted under applicable law to indemnify an office holder in the company.

As permitted under the Israeli Companies Law, our amended and restated articles of association provide that we may insure an office holder against the following liabilities incurred for acts performed by him or her as an office holder:

- a breach of the duty of loyalty to the company, provided that the office holder acted in good faith and had a reasonable basis to believe that the act would not harm the company;
- a breach of duty of care to the company or to another person, to the extent such a breach arises out of the negligent conduct of the office holder;
- a monetary liability imposed on the office holder in favor of a third party;
- expenses he or she incurs as a result of administrative proceedings that may be instituted against him or her under the Israeli securities laws if applicable, and payments made to injured persons under specific circumstances thereunder; and

- any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of an office holder in the company.

Under the Israeli Companies Law, a company may not indemnify, exculpate or insure an office holder against any of the following:

- a breach of the duty of loyalty, except for indemnification and insurance for a breach of the duty of loyalty to the company to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach of duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;
- an act or omission committed with intent to derive illegal personal benefit; or
- a fine, monetary sanction or forfeit levied against the office holder.

Under the Israeli Companies Law, exculpation, indemnification and insurance of office holders must be approved by the compensation committee and the board of directors and, with respect to directors or controlling shareholders, their relatives and third parties in which controlling shareholders have a personal interest, also by the shareholders.

Our amended and restated articles of association permit us to exculpate, indemnify and insure our office holders to the fullest extent permitted or to be permitted by law. Our office holders are currently covered by a directors' and officers' liability insurance policy. As of the date of this annual report, no claims for directors' and officers' liability insurance have been filed under this policy and we are not aware of any pending or threatened litigation or proceeding involving any of our office holders, including our directors, in which indemnification is sought.

We have entered into agreements with each of our current office holders exculpating them from a breach of their duty of care to us to the fullest extent permitted by law, subject to limited exceptions, and undertaking to indemnify them to the fullest extent permitted by law, subject to limited exceptions, including to the extent that these liabilities are not covered by insurance. This indemnification is limited, with respect to any monetary liability imposed in favor of a third party, to events determined as foreseeable by the board of directors based on our activities. The maximum aggregate amount of indemnification that we may pay to our office holders based on such indemnification agreement is the greater of (i) 25% of our total shareholders' equity pursuant to our most recent financial statements as of the time of the actual payment of indemnification and (ii) \$40.0 million (as may be increased from time to time by shareholders' approval); provided, however, that in relation to indemnification claimed in connection with a public offering of our securities, the amount, if higher, shall be equal to the aggregate proceeds from the sale by the Company and/or any shareholder of the Company in connection with such public offering. Such indemnification amounts are in addition to any insurance amounts. Each office holder who agrees to receive this letter of indemnification also gives his approval to the termination of all previous letters of indemnification that we have provided to him or her in the past, if any. However, in the opinion of the SEC, indemnification of office holders for liabilities arising under the Securities Act is against public policy and therefore unenforceable.

#### Employment and Consulting Agreements with Executive Officers

We have entered into written employment or service agreements with each of our executive officers. See "Item 7.B. Related Party Transactions—Employment Agreements."

#### D. Employees

##### Employees

As of December 31, 2020, we had 533 employees, independent consultants and independent contractors, of which 280 were in located in Israel, 156 were located in the United States, 30 were located in the United Kingdom and approximately 67 were located across 17 other countries. Set forth below is a breakdown of our global workforce of employees, independent consultants and independent contractors by category of activity as of the dates indicated:

	As of December 31,		
	2018	2019	2020
Services, support and fulfillment	74	98	97
Research and development	152	187	177
Sales and marketing	167	223	194
General and administrative	31	60	65
Total	424	568	533



## **E. Share Ownership**

For information regarding the share ownership of our directors and executive officers, please refer to “Item 6.B. Compensation” and “Item 7.A. Major Shareholders.”

### **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

#### **A. Major Shareholders**

The following table sets forth information with respect to the beneficial ownership of our shares as February 19, 2021 by:

- each person or entity known by us to own beneficially more than 5% of our outstanding shares;
- the selling shareholders;
- each of our directors and executive officers individually; and
- all of our directors and executive officers as a group.

The beneficial ownership of ordinary shares is determined in accordance with the rules of the SEC and generally includes any ordinary shares over which a person exercises sole or shared voting or investment power, or the right to receive the economic benefit of ownership. For purposes of the table below, we deem shares subject to options or warrants that are currently exercisable or exercisable within 60 days of February 19, 2021 to be outstanding and to be beneficially owned by the person holding the options or warrants for the purposes of computing the percentage ownership of that person but we do not treat them as outstanding for the purpose of computing the percentage ownership of any other person. The percentage of shares beneficially owned is based on 36,448,642 ordinary shares outstanding as of February 19, 2021.

As of February 19, 2021, we had 5 holders of record of our ordinary shares in the United States, including Cede & Co., the nominee of The Depository Trust Company. These shareholders held an aggregate of 25,643,566, or 70.4%, of our ordinary shares outstanding as of February 19, 2021. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held by brokers or other nominees.

All of our shareholders, including the shareholders listed below, have the same voting rights attached to their ordinary shares. See “Item 10.B. Memorandum and Articles of Association—Voting Rights and Conversion.” Unless otherwise noted below, each shareholder’s address is Tufin Software Technologies Ltd., 5 HaShalom Road, ToHa Tower, Tel Aviv 6789205, Israel.

A description of any material relationship that our principal shareholders have had with us or any of our predecessors or affiliates since January 1, 2018 is included under “Certain Relationships and Related Party Transactions.”

Name of Beneficial Owner	Shares Beneficially Owned	
	Number	%
<i>Directors and Executive Officers</i>		
Reuven Kitov (1)	1,956,002	5.4%
Reuven Harrison	1,837,002	5.0%
Jack Wakileh	*	*
Kevin Maloney	*	*
Yoram Gronich	*	*
Ofer Or	*	*
Ohad Finkelstein (2)	4,463,048	12.2%
Yuval Shachar (3)	4,512,770	12.4%
Yair Shamir (4)	3,178,595	8.7%
Edouard Cukierman (4)	3,178,595	8.7%
Peter Campbell	*	*
Dafna Gruber	*	*
Tom Schodorf	*	*
Brian Gumbel	*	*
All directors and executive officers as a group (14 persons) (6)	11,874,322	32.6%
<i>Principal Shareholders</i>		
Entities affiliated with Marker LLC (7)	4,512,770	12.4%
Catalyst Private Equity Partners (Israel) II, Limited Partnership (8)	3,178,595	8.7%
Entities affiliated with Vintage Investment Partners (9)	2,462,138	6.8%
ETF Managers Group LLC (10)	2,229,828	6.1%
Harel Insurance Investments & Financial Services Ltd. (11)	1,893,250	5.2%
Ibex Israel Fund LLLP (12)	1,850,000	5.1%

\* Less than 1%.

- (1) Includes 639,350 shares held in trust for family members over which Reuven Kitov is the beneficial owner.
- (2) Consists of 4,452,410 shares Ohad Finkelstein may be deemed to beneficially own through entities affiliated with Marker LLC and 10,638 shares issuable upon the exercise of options exercisable within 60 days of February 19, 2021. See Note 7 below.
- (3) Consists of 4,452,410 shares Yuval Shachar may be deemed to beneficially own through entities affiliated with Marker LLC and 60,360 shares issuable upon the exercise of options exercisable within 60 days of February 19, 2021. See Note 7 below.
- (4) Consists of 3,167,957 shares Yair Shamir may be deemed to beneficially own through Catalyst Private Equity Partners (Israel) II, Limited Partnership, or Catalyst Israel and 10,638 shares issuable upon the exercise of options exercisable within 60 days of February 19, 2021. See Note 8 below.
- (5) Consists of 3,167,957 shares Edouard Cukierman may be deemed to beneficially own through Catalyst Private Equity Partners (Israel) II, Limited Partnership, or Catalyst Israel and 10,638 shares issuable upon the exercise of options exercisable within 60 days of February 19, 2021. See Note 8 below.

- (6) See Notes 1 through 5 above. Includes 11,413,371 ordinary shares and 460,951 shares issuable upon the exercise of options exercisable within 60 days of February 19, 2021.
- (7) Consists of 473,968 shares held by Marker II LP, 1,184,919 shares held by Marker Lantern II Ltd. and 2,793,523 shares held by Marker TF Investments Ltd. Richard Scanlon is the sole director of the managers and the general partner, as the case may be, of each of the foregoing entities (collectively, the “Marker Group”). Ohad Finkelstein and Yuval Shachar are independent members of the investment committee of each of the foregoing entities. Voting and investment power over the shares held by such entities resides with the general partner and the members of any such investment committee. The address of the foregoing entities and individuals is c/o Marker LLC, 10 East 53rd Street, New York, New York 10022. The foregoing information was obtained from a Schedule 13D filed with the SEC by the Marker Group on December 14, 2020.
- (8) Consists of 3,3167,957 shares held by Catalyst Israel. Catalyst Israel holds 633,986 shares in trust for Catalyst Private Equity Partners (Israel B) II L.P., or Catalyst Israel B, and 257,953 shares in trust for Catalyst Private Equity Partners (Israel C) II, L.P., or Catalyst Israel C. The general partner of Catalyst Israel, Catalyst Israel B and Catalyst Israel C is Catalyst Investments II L.P. The general partner of Catalyst Investments II L.P. is Catalyst Equity (2006) Ltd. The Catalyst Equity (2006) Ltd. board of directors is comprised of Edouard Cukierman, Yair Shamir, Roger Cukierman and Luc Muller (collectively, the “Catalyst Group”). Voting and investment power over the shares resides with the board of directors of Catalyst Equity (2006) Ltd. The address of the foregoing entities and individuals is c/o Catalyst Private Equity, 28 Haarbaa Street, Tel Aviv 6473925, Israel. The foregoing information concerning the number of shares beneficially owned by the foregoing entities was obtained only from a Schedule 13D/A filed with the SEC by the Catalyst Group on February 18, 2021 and was not corroborated by information otherwise known to the Company.
- (9) Consists of 793,184 shares held by Vintage Co-Investment Fund I (Cayman), LP, 835,398 shares held by Vintage Secondary Fund III (Cayman), L.P., 268,313 shares held by Vintage Secondary Fund III (Israel), L.P. and 565,243 shares held by Vintage Co-Investment Fund I (Israel), L.P. The general partner of Vintage Co-Investment Fund I (Cayman), LP and Vintage Co-Investment Fund I (Israel), L.P. is Vintage Investments 5 LP. The general partner of Vintage Investments 5 LP is Vintage Fund 5 Ltd. The general partner of Vintage Secondary Fund III (Cayman), L.P. and Vintage Secondary Fund III (Israel), L.P. is Vintage Investments VI, LP. The general partner of Vintage Investments VI, LP is Vintage Fund 6 Ltd. Voting and investment power over the shares resides with the applicable general partner. Voting and investment power over the shares resides with the applicable general partner. The address of the foregoing entities and individuals is c/o Vintage Investment Partners, 12 Abba Eban Avenue, Ackerstein Towers Building D, 10th Floor, Herzliyah Pituach 46120, Israel. The foregoing information was obtained from the entities affiliate with Vintage Investment Partners in February 2021.
- (10) The information in the table above concerning the number of shares beneficially owned by ETF Managers Group LLC, was obtained from a Schedule 13G/A filed with the SEC by ETF Managers Group LLC on June 24, 2020 reporting beneficial ownership at June 24, 2020. The address of the foregoing entity is ETF Managers Group LLC, 30 Maple Street, Suite 2, Summit, NJ 07091.
- (11) The information in the table above concerning the number of shares beneficially owned by Harel Insurance Investments & Financial Services Ltd. was obtained from a Schedule 13G filed with the SEC by Harel Insurance Investments & Financial Services Ltd. on January 28, 2020 reporting beneficial ownership at January 22, 2020. The address of the foregoing entity is c/o Harel House, 3 Aba Hillel Street; Ramat Gan 52118, Israel.
- (12) The information in the table above concerning the number of shares beneficially owned by Ibex Israel Fund LLP, a Delaware limited liability limited partnership (the “Ibex Fund”) was obtained from a Schedule 13G filed with the SEC on November 16, 2020 reporting beneficial ownership at November 10, 2020 by by (i) Justin B. Borus, (ii) Ibex Investors LLC, a Colorado limited liability company (the “Ibex Investment Manager”), (iii) the Ibex Fund, (4) Ibex GP LLC, a Colorado limited liability company (the “Ibex GP”), (5) Ibex Investment Holdings LLC, a Delaware limited liability company (“IM Holdings”) and (6) Ibex Investment Holdings II LLC, a Delaware limited liability company (“Ibex GP Holdings”) (collectively, the “Ibex Group”). The Ibex Investment Manager is the investment manager of the Ibex Fund. IM Holdings is the sole member of the Ibex Investment Manager. The Ibex GP is the general partner of the Ibex Fund. Ibex GP Holdings is the sole member of the Ibex GP. Justin B. Borus is the manager of the Ibex Investment Manager, IM Holdings, the Ibex GP and Ibex GP Holdings. The address of the foregoing entities and individuals is c/o Ibex Investors LLC, 260 N. Josephine Street, Suite 300, Denver, CO 80206.

## **B. Related Party Transactions**

Our policy is to enter into transactions with related parties on terms that, on the whole, are no more favorable, or no less favorable, than those available from unaffiliated third parties. Based on our experience in the business sectors in which we operate and the terms of our transactions with unaffiliated third parties, we believe that all of the transactions described below met this policy standard at the time they occurred. The following is a description of material transactions, or series of related material transactions, since January 1, 2018, to which we were or will be a party and in which the other parties included or will include our directors, executive officers, holders of more than 5% of our voting securities or any member of the immediate family of any of the foregoing persons.

## Agreements with Related Parties

### Registration Rights

Our amended and restated investors' rights agreement entitles certain of our shareholders to certain registration rights, including the following:

*Form F-1 Demand Rights.* The holders of at least 25% of the shares held by our former preferred shareholders can provide us a written request to file a registration statement in respect of the ordinary shares issued upon conversion of the preferred shares, or the "registrable securities." Within 10 days of the receipt of a request to effect such registration, we must give written notice of the request to the other holders of the registrable securities. We are not required to effect more than two registrations on Form F-1 that have been declared or ordered effective as promptly as practicable. We are only required to effect any such registration if the anticipated aggregate proceeds will be at least \$5.0 million (net of underwriting discounts).

*Form F-3 Demand Rights.* Upon the written request of any former preferred shareholders that we effect a registration on Form F-3, we must give written notice of the proposed registration within 10 days, and any related qualification or compliance, to all other former preferred shareholders. We must use commercially reasonable efforts to effect such registration and all such qualifications and compliances requested, together with all or such portion of the registrable securities of any other former preferred shareholders joining in such request. We are not required to effect a registration on Form F-3 more than twice in any 12-month period. We are only required to effect any such registration if the anticipated aggregate proceeds will be at least \$1.0 million.

*Shelf Takedown.* Upon the written request of any former preferred shareholders that we effect a public offering using an effective shelf registration statement, we must give written notice of the proposed offering within 10 days (or two business days in connection with an underwritten "block trade"), and any related qualification or compliance, to all other former preferred shareholders. We are not required to effect an underwritten shelf takedown if we effected a demand registration, piggyback offering or underwritten shelf takedown within the preceding 90 days. We are only required to effect an underwritten shelf takedown if the anticipated aggregate proceeds will be at least \$5.0 million.

*Piggyback Offerings.* Shareholders holding registrable securities have the right to request to participate in any offering initiated by us, subject to specified exceptions. Holders of registrable securities continue to have the right to participate in subsequent piggyback offerings regardless of whether the holder has opted out of prior offerings.

*Cutback.* In the event that the underwriter advises us that marketing factors require a limitation on the number of shares that can be included in a registered offering, the shares will be included in the registration statement in an agreed order of preference among the holders of registration rights. The same preference also applies in the case of a piggyback offering, but we have first preference and the amount of registrable securities to be included may not be reduced below 25% of the total amount of securities included in such offering.

*Termination.* Rights granted to holders of registrable securities pursuant to the amended and restated investors' rights agreement terminate on the fifth anniversary of the closing of our initial public offering. With respect to any of our holders of registrable securities that hold less than 4% of our outstanding ordinary shares, such rights terminate when the shares held by such shareholder can be sold within a 90-day period under Rule 144. We have the right to terminate or delay any registration or offering, even if such registration or offering is subject to piggyback rights.

*Expenses.* We will pay all expenses in carrying out the foregoing registrations or offerings other than any underwriting discounts.

### Rights of Appointment

Our current board of directors consists of 10 directors. As of the date of this annual report, we are not a party to, and are not aware of, any voting agreements among our shareholders. Our founders, Reuven Kitov and Reuven Harrison, have agreed that Reuven Kitov will designate the director that our founders are permitted to jointly appoint under certain circumstances for so long as our founders share such designation right as set forth in our amended and restated articles of association. See "Item 6.C. Board Practices—Appointment Rights."

### Agreements with Directors and Executive Officers

*Employment Agreements.* We have entered into written employment agreements with each of our executive officers. These agreements provide for notice periods of varying duration for termination of the agreement by us or by the relevant executive officer, during which time the executive officer will continue to receive base salary and benefits. These agreements also contain customary provisions regarding noncompetition, confidentiality of information and assignment-of-inventions. However, the enforceability of the noncompetition provisions may be limited under applicable law.

*Equity Awards.* Since October 2007, we have granted options to purchase our ordinary shares and Restricted Stock Units (“RSUs”) to our officers and to our directors. Such option agreements may contain acceleration provisions upon certain merger, acquisition, or change of control transactions. We describe our option plans under “Equity Incentive Plans” in this annual report. If our relationship with an executive officer or a director is terminated, except for cause (as defined in the various option plan agreements), all options that are vested will remain exercisable for 90 days after such termination (180 days in case of death, retirement or disability) or until expiration of the term of the option award, whichever is earlier.

The following table provides information regarding the options and RSUs to purchase our ordinary shares granted to our directors and executive officers that, in each case, beneficially own 1% or more of our ordinary shares:

Name/Title	Number of Shares Underlying		Exercise Price	Expiration Date
	RSUs			
Reuven Kitov, Chief Executive Officer, Chairman of the Board of Directors and Co-Founder	90,000	\$	-	July 29 <sup>th</sup> , 2030
Reuven Harrison, Chief Technology Officer and Co-Founder	60,000	\$	-	July 29 <sup>th</sup> , 2030

*Exculpation, Indemnification and Insurance.* Our amended and restated articles of association permit us to exculpate, indemnify and insure certain of our office holders to the fullest extent permitted by the Israeli Companies Law. We entered into agreements with our office holders, exculpating them from a breach of their duty of care to us to the fullest extent permitted by law and undertaking to indemnify them to the fullest extent permitted by law, subject to certain exceptions. See “Item 6.C. Board Practices—Exculpation, Insurance and Indemnification of Directors and Officers.”

*Directors’ Service Contracts.* There are no arrangements or understandings between us, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company.

### C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information

#### Consolidated Financial Statements

We have appended as part of this annual report our consolidated financial statements starting at page F-1.

#### Legal Proceedings

We, along with our directors and officers (the “Individual Defendants”) at the time of our initial public offering (“IPO”) were named as defendants in four putative shareholder class action lawsuits filed in the Supreme Court of the State of New York on (1) February 26, 2020, captioned *Matt Primozich v. Tufin Software Technologies Ltd., et al.*, Index No. 651287/2020 (Sup. Ct. N.Y. Cnty.) (“Primozich Action”), (2) May 28, 2020, captioned *Allen v. Tufin Software Technologies Ltd., et al.*, Index No. 652118/2020 (Sup. Ct. N.Y. Cnty.) (“Allen Action”), (3) June 15, 2020, captioned *Avi Shmuelly v. Tufin Software Technologies Ltd., et al.*, Index No. 652475/2020 (Sup. Ct. N.Y. Cnty.) (“Shmuelly Action”), and (4) July 1, 2020 captioned *Michael Roche v. Tufin Software Technologies Ltd., et al.*, Index No. 652833/2020 (Sup. Ct. N.Y. Cnty.) (“Roche Action”, and with the Primozich Action, Allen Action, and Shmuelly Action, the “Tufin State Actions”). In addition to naming us and the Individual Defendants as defendants, the Roche Action names the underwriters in the IPO as defendants (“IPO Underwriter Defendants”). On November 17, 2020 plaintiffs in the Primozich Action and Allen Action filed amended complaints.

In the Tufin State Actions, the plaintiffs, seeking to represent a class of all purchasers and acquirers of our ordinary shares issued in connection with our April IPO, allege that the (1) the defendants made material misstatements or failed to disclose material information in the IPO Offering Documents, thereby allegedly violating Section 11 of the Securities Act and (2) the Individual Defendants were “control persons” of the Company by virtue of their positions, and thereby are allegedly liable under Section 15 of the Securities Act. The Roche Action also asserts a claim under Section 12(a)(2) of the Securities Act alleging that defendants issued, caused to be issued, and/or signed the IPO Offering Documents in connection with issuance of stock to shareholders in the IPO. The plaintiffs have filed various motions to consolidate and appoint a lead plaintiff and lead counsel in the Tufin State Actions, and such motions have been fully briefed since August 4, 2020; however, as of February 6, 2021, an order on the motions had not yet been entered.

Two federal class actions were also filed in the Southern District of New York: (1) the matter captioned *Matthew Ellison v. Tufin Software Technologies Ltd. et al.*, Case No. 1:20-cv-05646 (S.D.N.Y.) was filed on July 21, 2020 and names us, the Individual Defendants, the IPO Underwriter Defendants, and certain underwriters in the secondary public offering (“SPO Underwriter Defendants”) as defendants (“Ellison Action”) and (2) the matter captioned *Michaelson v. Tufin Software Technologies Ltd. et al.*, Case No. 1: 20-cv-06290 (S.D.N.Y.) was filed on August 10, 2020 and names us and the Individual Defendants as defendants (“Michaelson Action” and with the Ellison Action, the “Tufin Federal Actions”). The Tufin Federal Actions were brought on behalf of all persons or entities, who purchased stock in our April 2019 IPO and/or December 2019 secondary public offering (“SPO”), pursuant to and/or traceable to the alleged misleading IPO Offering Documents or SPO Offering Documents, and assert violations of Sections 11 and 12(a)(2) (against all defendants) and Section 15 (against Individual Defendants) of the Securities Act. On October 19, 2020, the New York federal court entered an order consolidating the Tufin Federal Actions under Master File No. 1:20-cv-05646, appointing Mark Henry as lead plaintiff, and approving Henry’s selection of lead counsel. On February 4, 2021, lead plaintiff filed a Consolidated Amended Complaint, which asserts claims for violations of Sections 11 and 15 of the Securities Act of 1933, based on alleged false or misleading statements or omissions in the Registration Statement issued in connection with our April IPO. The Consolidated Amended Complaint names us and the Individual Defendants as Defendants. Defendants have 60 days from the filing of the Consolidated Amended Complaint to answer or otherwise respond to the Consolidated Amended Complaint.

We are also subject to certain indemnification obligations with respect to the Individual Defendants, IPO Underwriter Defendants, and the SPO Underwriter Defendants, in connection with the Tufin State Actions and Tufin Federal Actions.

Based on information currently available and the current stage of the litigation, we are unable to reasonably estimate a possible loss or range of possible losses, if any, with regard to the Tufin State Actions and Tufin Federal Actions; therefore, no estimated liability has been recorded in our consolidated balance sheets as of December 31, 2020. We will continue to evaluate information as it becomes known and will record an estimate for losses at the time or times if and when it is probable that a loss will be incurred and the amount of the loss is reasonably estimable.

### **Dividend Policy**

We have never declared or paid any cash dividends on our ordinary shares. We do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and expand our business. Our board of directors has sole discretion whether to pay dividends. If our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our directors may deem relevant. The distribution of dividends may also be limited by Israeli law, which permits the distribution of dividends only out of retained earnings or otherwise upon the permission of an Israeli court.

#### **B. Significant Changes**

No significant changes have occurred since December 31, 2020, except as otherwise disclosed in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and Listing Details**

Our ordinary shares commenced trading on the NYSE on April 11, 2019. Prior to that date, no public market existed for our ordinary shares.

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

Our ordinary shares are listed and traded on the NYSE under the symbol “TUFN”.

### **D. Selling Shareholders**

Not applicable.

#### **E. Dilution**

Not applicable.

#### **F. Expenses of the Issue**

Not applicable.

### **ITEM 10. ADDITIONAL INFORMATION**

#### **A. Share Capital**

Not applicable.

#### **B. Memorandum and Articles of Association**

A copy of our amended and restated articles of association is attached as Exhibit 1.1 to this Annual Report. The information called for by this Item is set forth in Exhibit 2.5 to this Annual Report and is incorporated by reference into this Annual Report.

#### **C. Material Contracts**

For a description of the registration rights that we granted under our Fourth Amended Investor Rights Agreement, please refer to “Item 7.B. Related Party Transaction—Registration Rights.”

We entered into an underwriting agreement between us, J.P. Morgan Securities LLC, Barclays Capital Inc. and Jefferies LLC, as representatives of the underwriters, on April 11, 2019, with respect to the ordinary shares sold in our initial public offering. Additionally, we entered into an underwriting agreement between us, J.P. Morgan Securities LLC, Barclays Capital Inc. and Jefferies LLC, as representatives of the underwriters, with respect to the ordinary shares sold by certain of our shareholders in a public offering of ordinary shares, on December 4, 2019.

Under each of the two underwriting agreements described above, we have agreed to indemnify the underwriters covered by the corresponding agreement against certain liabilities, including liabilities under the Securities Act, and to contribute to payments such underwriters may be required to make in respect of such liabilities.

#### **D. Exchange Controls**

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except for shareholders who are subjects of certain countries that are, or have been, in a state of war with Israel at such time.

#### **E. Taxation**

The following is a brief summary of material Israeli income tax laws and government programs applicable to us. Some parts of this discussion are based on new Israeli tax legislation, which has not been subject to judicial or administrative interpretation. The discussion is general in nature, should not be construed as comprehensive legal or professional tax advice and does not cover all possible tax considerations in general and especially tax considerations that may be relevant to a particular investor in light of his, her or its personal investment circumstances or to some types of investors which are subject to special treatment under Israeli tax law. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign or other taxing jurisdiction.

## **Certain Israeli Tax Consequences**

### ***General Corporate Tax Structure in Israel***

Israeli resident companies are generally subject to corporate tax on their taxable income at the rate of 23% for the year ended December 31, 2020 (in 2018 and 2019 the corporate tax rate was also 23%). However, the effective tax rate payable by a company that derives income from an Approved Enterprise, a Beneficiary Enterprise, a Preferred Enterprise, a Special Preferred Enterprise, a Preferred Technology Enterprise or Special Preferred Technology Enterprise (as defined below) may be considerably less.

Capital gains derived by an Israeli resident company are subject to tax at the corporate tax rate of 23%, as mentioned above. Under Israeli tax legislation, a corporation will be considered as an “Israeli resident company” if (i) it was incorporated in Israel or (ii) the control and management of its business are exercised in Israel.

### ***Law for the Encouragement of Industry (Taxes), 5729-1969***

The Law for the Encouragement of Industry (Taxes), 5729-1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for “Industrial Companies.”

The Industry Encouragement Law defines an “Industrial Company” as a company, resident in Israel, that was incorporated in Israel, which 90% or more of its income in any tax year, other than income from defense loans, is derived from an “Industrial Enterprise” owned by it and that is located in Israel or in the “Area”, in accordance with the definition under section 3A of the Israeli Tax Ordinance. An “Industrial Enterprise” is defined as an enterprise whose principal activity in a given tax year is industrial production.

The following corporate tax benefits, among others, are available to Industrial Companies:

- amortization over an eight-year period of the cost of purchased know-how and patents and rights to use a patent and know-how which are used for the development or advancement of the Industrial Enterprise, commencing on the year in which such rights were first utilized;
- under limited conditions, an election to file consolidated tax returns with related Israeli Industrial Companies; and
- expenses related to a public offering are deductible in equal amounts over three years commencing on the year of the offering.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

Although as of the date of this annual report, we do not have industrial production activities, we may qualify as an Industrial Company in the future and may be eligible for the benefits described above.

### ***Tax Benefits and Grants for Research and Development***

Israeli tax law allows, under certain conditions, a tax deduction for expenditures related to scientific research and development projects, including capital expenditures, in the year in which they are incurred, if:

- the expenditures are approved by the relevant Israeli government ministry, determined by the field of research;
- the research and development must be for the promotion or development of the company; and
- the research and development is carried out by or on behalf of the company seeking such tax deduction.

The amount of such deductible expenses is reduced by the sum of any funds received through government grants for the financing of such scientific research and development projects. No deduction under these research and development deduction rules is allowed if such deduction is related to an expense invested in an asset depreciable under the general depreciation rules of the Israeli Tax Ordinance. Expenditures related to research for the promotion or development of the company not so approved, are deductible in equal amounts over three years.

From time to time, we may apply to the Innovation Authority for approval to allow a tax deduction for all research and development expenses during the year incurred. There can be no assurance that such application will be accepted.

### ***Law for the Encouragement of Capital Investments, 5719-1959***

The Law for the Encouragement of Capital Investments, 5719-1959, generally referred to as the Investment Law, provides certain incentives for enterprises including in the cases of capital investments in production facilities (or other eligible assets). Generally, an enterprises that may be either an “Approved Enterprise”, a “Beneficiary Enterprise”, a “Preferred Enterprise”, a “Special Preferred Enterprise”, a “Preferred Technology Enterprise” or “Special Preferred Technology Enterprise”, is entitled to benefits as discussed below. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the location within Israel of the facility in which the investment and manufacture activity are made. In order to qualify for these incentives, an Approved Enterprise, a Beneficiary Enterprise or, a Preferred Enterprise, a Special Preferred Enterprise, a Preferred Technology Enterprise or Special Preferred Technology Enterprise, is required to comply with the requirements of the Investment Law.



The Investment Law has been amended several times over the recent years, with the three most significant changes effective as of April 1, 2005, referred to as the 2005 Amendment, as of January 1, 2011, referred to as the 2011 Amendment, and as of January 1, 2017, referred to as 2017 Amendment. Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force, but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law prior to the 2011 Amendment, yet companies entitled to benefits under the Investment Law as in effect up to January 1, 2011, were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and elect for the benefits of the 2011 Amendment. The 2017 Amendment introduced new benefits for Technological Enterprises, alongside the existing tax benefits.

#### ***Tax Benefits Prior to the 2005 Amendment***

An investment program that is implemented in accordance with the provisions of the Investment Law prior to the 2005 Amendment, referred to as an “Approved Enterprise”, is entitled to certain benefits. A company that wished to receive benefits as an Approved Enterprise must have received approval from the Investment Center of the Israeli Ministry of Economy and Industry, referred to as the Investment Center. Each certificate of approval for an Approved Enterprise relates to a specific investment program in the Approved Enterprise, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset.

In general, an Approved Enterprise was entitled to receive a grant from the Israeli government under the “Grant Track” or an alternative package of tax benefits, known as the “Alternative Track”. The tax benefits from any certificate of approval relate only to taxable profits attributable to the specific Approved Enterprise and are contingent upon meeting the criteria set out in the certificate of approval. Income derived from activity that is not integral to the activity of the Approved Enterprise does not qualify for the tax benefits.

In addition, a company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a Foreign Investors’ Company, or a FIC, which is a company with a level of foreign investment, as defined in the Investment Law, of more than 25%. The level of foreign investment is measured as the percentage of rights in the company (in terms of shares, rights to profits, voting and appointment of directors), and of combined share and loan capital, that are owned, directly or indirectly, by persons who are not residents of Israel. The determination as to whether a company qualifies as an FIC is made on an annual basis according to the lowest level of foreign investment during the year.

We are currently not entitled to tax benefits for Approved Enterprise.

#### ***Tax Benefits Subsequent to the 2005 Amendment***

The 2005 Amendment applies to new investment programs commencing after 2004, but does not apply to investment programs approved prior to April 1, 2005. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment became effective on April 1, 2005 will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Investment Center will continue to grant Approved Enterprise status to qualifying investments. The 2005 Amendment, however, limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise’s income be derived from exports.

An enterprise that qualifies under these provisions is referred to as a “Beneficiary Enterprise”, rather than “Approved Enterprise”. The 2005 Amendment provides that the Investment Center’s approval is required only for Approved Enterprise that receive cash grants. As a result, it was no longer required to obtain Approved Enterprise status in order to receive the tax benefits previously available under the Alternative Track. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment. Companies are entitled to approach the Israeli Tax Authority for a pre-ruling regarding their eligibility for benefits under the Investment Law, as amended.

In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets all of the conditions, including exceeding a minimum investment amount specified in the Investment Law. Such investment allows a company to receive “Beneficiary Enterprise” status, and may be made over a period of no more than three years ending in the year in which the company chose to have the tax benefits apply to its Beneficiary Enterprise (the “Year of Election”).

Where a company requests to apply the tax benefits to an expansion of existing facilities, only the expansion will be considered to be a Beneficiary Enterprise and the company's effective tax rate will be the weighted average of the applicable rates. In this case, the minimum investment required in order to qualify as a Beneficiary Enterprise is required to exceed a certain percentage of the value of the company's production assets before the expansion.

The benefits period is subject to a limitation of 7 to 10 years from the Commencement Year (the Commencement Year being defined as the later of: (i) the first tax year in which the company derives income for tax purposes from the Beneficiary Enterprise or (ii) the Year of Election) provided that 12 years have not elapsed from the first day of the Year of Election.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Beneficiary Enterprise depend on, among other things, the geographic location in Israel of the Beneficiary Enterprise. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to 10 years, depending on the geographic location of the Beneficiary Enterprise in Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year. A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income derived by its Beneficiary Enterprise during the tax exemption period, will be subject to corporate tax in respect of the amount of the dividend distributed (grossed-up to reflect the pre-tax income that it would have had to earn in order to distribute the dividend) at the otherwise applicable corporate tax rate (while taking into account the entitlement for reduced rates under the Investment Law). Dividends paid out of income attributed to a Beneficiary Enterprise are generally subject to withholding tax at source at the rate of 15% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). The reduced rate of 15% is limited to dividends and distributions out of income attributed to a Beneficiary Enterprise during the benefits period and which are actually paid at any time up to 12 years thereafter (except with respect to an FIC, in which case the 12-year limit does not apply).

The benefits available to a Beneficiary Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, as adjusted by the Israeli consumer price index, and interest, or other monetary penalties.

We applied for tax benefits as a Beneficiary Enterprise with 2009 and 2011 as the Years of Election. We may be entitled to tax benefits under this regime in respect of the 2011 Year of Election once we are profitable for tax purposes and subject to the fulfillment of all the relevant conditions. If we do not meet these conditions, the tax benefits may not be applicable which would result in adverse tax consequences to us. Alternatively, and subject to the fulfillment of all the relevant conditions, we may elect in the future to irrevocably waive the tax benefits available for Beneficiary Enterprise and claim the tax benefits available to Preferred Enterprise under the 2011 Amendment (as defined below).

#### ***Tax Benefits Under the 2011 Amendment***

The Investment Law was significantly amended as of January 1, 2011. The 2011 Amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment.

The 2011 Amendment introduced new tax benefits for income generated by a "Preferred Company" through its "Preferred Enterprise," in accordance with the definition of such term in the Investment Law, as of January 1, 2011. A Preferred Company is defined as either (i) a company incorporated in Israel which is not wholly owned by a governmental entity, or (ii) a limited partnership that: (a) was registered under the Israeli Partnerships Ordinance and; (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, Preferred Enterprise status and is controlled and managed from Israel.

Since 2017 and thereafter, the corporate tax rate for Preferred Enterprise, which is located in development zone A, was decreased to 7.5%, while the reduced corporate tax rate for other development zones remains 16%. Income derived by a Preferred Company from a "Special Preferred Enterprise", as such term is defined in the Investment Law, would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5% if the Special Preferred Enterprise is located in development zone A. Our operations are currently not located in development zone A.

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at source at the rate of 20%, or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israeli Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. From 2017 to 2019, dividends paid out of preferred income attributed to a Special Preferred Enterprise, directly to a foreign parent company, were subject to withholding tax at source at the rate of 5% (temporary provisions).

We are currently not entitled to tax benefits for a Preferred Enterprise or Special Preferred Enterprise.

### ***New Tax Benefits Under the 2017 Amendment***

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and was effective as of January 1, 2017. The 2017 Amendment provides new tax benefits for two types of “Technology Enterprises”, as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a “Preferred Technology Enterprise” and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as “Preferred Technology Income”, as defined in the Investment Law (according to certain formula). The tax rate is further reduced to 7.5% for a Preferred Technology Enterprise located in development zone A. In addition, a Preferred Technology Enterprise will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain “Benefitted Intangible Assets”, as defined in the Investment Law, to a related foreign company if the Benefitted Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the National Authority for Technological Innovation (previously known as the Israeli Office of the Chief Scientist), referred to as the IIA.

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a “Special Preferred Technology Enterprise” and will thereby enjoy a reduced corporate tax rate of 6% on “Preferred Technology Income” regardless of the company’s geographic location within Israel. In addition, a Special Preferred Technology Enterprise will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain “Benefitted Intangible Assets” to a related foreign company if the Benefitted Intangible Assets were either developed by the Special Preferred Technology Enterprise or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from IIA. A Special Preferred Technology Enterprise that acquires Benefitted Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed by a Preferred Technology Enterprise or a Special Preferred Technology Enterprise, paid out of Preferred Technology Income, are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. If such dividends are distributed to a foreign parent company holding at least 90% of the shares of the distributing company and other conditions are met, the withholding tax rate will be 4%.

We are currently not qualified as a Preferred Technology Enterprise or Special Preferred Technology Enterprise.

### **Certain Israeli and United States Federal Income Tax Consequences**

The following description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of our ordinary shares. This section contains a discussion of material U.S. and Israeli tax consequences concerning the ownership and disposition of our ordinary shares purchased by investors. This summary does not discuss all the aspects of U.S. and Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under U.S. or Israeli law. Examples of this kind of investor include traders in securities or persons that own, directly or indirectly, 10% or more of our outstanding voting capital, all of whom are subject to special tax regimes not covered in this discussion.

SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE ISRAELI OR OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES, INCLUDING, IN PARTICULAR, THE EFFECT OF ANY FOREIGN, STATE OR LOCAL TAXES.

### **Taxation of Our Shareholders**

#### ***Capital Gains***

Capital gain tax is imposed on the disposition of assets by an Israeli resident, and on the disposition of such assets by a non-Israeli resident if those assets are, inter alia, (i) located in Israel, (ii) are shares or a right to a share in an Israeli resident corporation or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller’s country of residence provides otherwise. The Israeli Tax Ordinance distinguishes between “Real Gain” and the “Inflationary Surplus.”

Real Gain is the excess of the total capital gain over Inflationary Surplus computed generally on the basis of the increase in the Israeli consumer price index, or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of disposition. Inflationary Surplus generated starting from December 31, 1993, is not subject to tax in Israel.

Real Capital Gain accrued by individuals on the sale of our ordinary shares will be taxed at the rate of 25%. However, if the individual shareholder is a Significant Shareholder at the time of the sale or at any time during the preceding 12-month period, such gain will be taxed at a rate of 30%. Furthermore, where an individual claimed real interest expenses and linkage differences on securities, the capital gain on the sale of the securities will be liable to a rate of 30%.

Real Capital Gain derived by corporations will be generally subject to the regular corporate tax rate (23% since 2018 and thereafter).

Individual shareholders whose income from the sale of securities is considered as business income are taxed at the marginal tax rates applicable to business income (up to 47% in 2020, not including the Excess Tax).

Either the purchaser, the Israeli stockbrokers or the Israeli financial institution through which the shares are held, is obliged to withhold tax in the amount of consideration paid upon the sale of securities (or the Real Capital Gain realized on the sale, if known) at the Israeli corporate tax rate (23% since 2018 and thereafter) or 25% in case the seller is an individual. The shareholder may provide an approval from the Israel Tax Authority for a reduced tax withholding rate.

Notwithstanding the foregoing, capital gain derived from the sale of our ordinary shares by a non-Israeli shareholder may be exempt under the Israeli Tax Ordinance from Israeli capital gain tax provided, among other things, that (1) The shareholders do not have a permanent establishment in Israel; (2) At the time of the sale, the shares are not listed on the Israeli stock exchange; (3) The shares were not acquired from a relative or as a part of an exempt reorganization; (4) The main value of the disposed company's assets does not consist of rights in real estate or real estate association. Also, the value is not originated from the exploitation of natural resources in Israel (detailed rules apply). However, non-Israeli corporations will not be entitled to the foregoing exemption if more than 25% of its means of control are held, directly and indirectly, by Israeli residents, or Israeli residents are entitled to 25% or more of the revenues or profits of the corporation, directly or indirectly. In addition, such exemption would not be available to a person whose gains from selling or otherwise disposing of the securities are deemed to be business income.

In addition, the sale of shares may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. For example, the U.S.-Israel Tax Treaty exempts U.S. residents from Israeli capital gain tax in connection with such sale, provided that (i) the U.S. resident owned, directly or indirectly, less than 10% of an Israeli resident company's voting power at any time within the 12-month period preceding such sale; (ii) the seller, being an individual, is present in Israel for a period or periods of less than 183 days during the taxable year; (iii) the capital gain arising from the sale was not derived through a permanent establishment of the U.S. resident in Israel; (iv) the capital gain arising from the sale is not attributed to real estate located in Israel; and (v) the capital gains arising from the sale is not attributed to royalties.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source at a rate of 25% if the seller is an individual, and at the corporate tax rate (23% since 2018 and thereafter) if the seller is a corporation. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding tax at the time of sale.

Upon the sale of securities traded on a stock exchange a detailed return, including a computation of the tax due, must be filed and an advanced payment must be paid on January 31 and July 31 of every tax year in respect of sales of securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Israeli Tax Ordinance and regulations promulgated thereunder, the aforementioned return need not be filed and no advance payment must be paid. Capital gain is also reportable on the annual income tax return.

### ***Dividends***

We have never paid cash dividends. A distribution of a dividend by our company from income attributed to an Approved Enterprise or Beneficiary Enterprise will generally be subject to withholding tax in Israel at a rate of 15% unless a reduced tax rate is provided under an applicable tax treaty. A distribution of a dividend by our company from income attributed to a Preferred Enterprise will generally be subject to withholding tax in Israel at the following tax rates: Israeli resident individuals – 20%; Israeli resident companies – 0%; Non-Israeli residents – 20%, subject to a reduced rate under the provisions of any applicable double tax treaty. The withholding tax rates for income attributed to an Approved Enterprise, Beneficiary Enterprise or Preferred Enterprise, as described above, will apply if the dividend is distributed during the tax benefits period under the Investment Law, or within 12 years after such period, except with respect to an FIC, in which case the 12-year limit does not apply. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved, Beneficiary, or Preferred income).

A distribution of dividends from income, which is not attributed to an Approved Enterprise, Beneficiary Enterprise or Preferred Enterprise to an Israeli resident individual, will generally be subject to tax at a rate of 25%, or 30% if the dividend recipient is a Significant Shareholder at the time of distribution or at any time during the preceding 12-month period. If the recipient of the dividend is an Israeli resident corporation, such dividend will not be subject to Israeli tax provided the income from which such dividend is distributed was derived or accrued within Israel.

The Israeli Tax Ordinance provides that a non-Israeli resident (either individual or corporation) is generally subject to Israeli withholding tax on the receipt of dividends at the rate of 25% (or 30% if the dividends recipient is a Significant Shareholder at the time of distribution or at any time during the preceding 12-month period, unless the shares are held through a registration company in which case the withholding rate is 25%); such rates may be reduced under the provisions of an applicable double tax treaty. Under the U.S.-Israel Tax Treaty, the following withholding rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting share capital of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain type of interest or dividends, the rate is 12.5%; (ii) if both the conditions mentioned in clause (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate applicable to an Approved Enterprise or Beneficiary Enterprise, the rate is 15% and (iii) in all other cases, the rate is 25%. The aforementioned rates under the U.S.-Israel Double Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

A non-Israeli resident who receives dividends from which the full tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from a business conducted in Israel by the taxpayer; (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed; and (iii) the taxpayer is not obligated to pay excess tax (as further explained below).

Dividends are generally subject to Israeli withholding tax at a rate of 25% so long as the shares listed on a stock exchange and are held with a nominee company (whether or not the recipient is a Significant Shareholder), unless relief is provided in a treaty between Israel and the shareholder's country of residence and provided that a certificate from the Israel Tax Authority allowing for a reduced withholding tax rate is obtained in advance.

## **Excess Tax**

Individuals who are subject to tax in Israel are also subject to an additional tax at a rate of 3% on annual income exceeding NIS 651,600 (for 2020), linked to the annual change in the Israeli consumer price index, including, but not limited to, income derived from dividends, interest and capital gains.

## ***Foreign Exchange Regulations***

Non-residents of Israel who hold our ordinary shares are able to receive any dividends, and any amounts payable upon the dissolution, liquidation and winding up of our affairs, repayable in non-Israeli currency at the rate of exchange prevailing at the time of conversion. However, Israeli income tax is generally required to have been paid or withheld on these amounts. In addition, the statutory framework for the potential imposition of currency exchange control has not been eliminated, and may be restored at any time by administrative action.

## ***Estate and Gift Tax***

Israeli law presently does not impose estate or gift taxes.

## **Certain U.S. Federal Income Tax Consequences**

The following is a description of certain U.S. federal income tax consequences relating to the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax consequences to holders of our ordinary shares that will hold such ordinary shares as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including, without limitation:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- brokers, dealers or traders in securities, commodities or currencies;
- tax-exempt entities or organizations, including an “individual retirement account” or “Roth IRA” as defined in Section 408 or 408A of the Code, respectively;
- certain former citizens or long-term residents of the United States;
- persons that receive our shares as compensation for the performance of services;
- persons that hold our shares as part of a “hedging,” “integrated” or “conversion” transaction or as a position in a “straddle” for U.S. federal income tax purposes;
- partnerships (including entities classified as partnerships for U.S. federal income tax purposes) or other pass-through entities, or indirect holders that hold our shares through such an entity;
- S corporations;
- holders that acquire ordinary shares as a result of holding or owning our preferred shares;
- holders whose “functional currency” is not the U.S. dollar; or
- holders that own directly, indirectly or constructively 10% or more of the voting power or value of our shares.

Moreover, this description does not address the U.S. federal estate, gift or alternative minimum tax consequences, or any state, local or foreign tax consequences, of the ownership and disposition of our ordinary shares.

This description is based on the Code, existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below. There can be no assurances that the U.S. Internal Revenue Service, or the IRS, will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained. Holders should consult their own tax advisors concerning the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of our ordinary shares in their particular circumstances.

For purposes of this description, a “U.S. Holder” is a beneficial owner of our ordinary shares that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

A “Non-U.S. Holder” is a beneficial owner of our ordinary shares that is neither a U.S. Holder nor a partnership (or other entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our ordinary shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to the particular U.S. federal income tax consequences of acquiring, owning and disposing of our ordinary shares in its particular circumstance.

**You should consult your tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of our ordinary shares.**

### ***Distributions***

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” if you are a U.S. Holder, the gross amount of any distribution made to you with respect to our ordinary shares before reduction for any Israeli taxes withheld therefrom, other than certain distributions, if any, of our ordinary shares distributed pro rata to all our shareholders, generally will be includible in your income as dividend income to the extent such distribution is paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a return of your adjusted tax basis in our ordinary shares and thereafter as either long-term or short-term capital gain depending upon whether the U.S. Holder has held our ordinary shares for more than one year as of the time such distribution is received. However, because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, U.S. Holders should expect that the entire amount of any distribution generally will be reportable as dividend income. Subject to the discussion below under “Passive Foreign Investment Company Considerations,” non-corporate U.S. Holders may qualify for the preferential rates of taxation with respect to dividends on ordinary shares applicable to long-term capital gains (i.e., gains from the sale of capital assets held for more than one year), provided that certain conditions are met, including the absence of certain risk reduction transactions. In addition, some corporate U.S. Holders may be entitled to a dividend received deduction. However, such preferential rate of taxation shall not apply if we are a PFIC for the taxable year in which we pay a dividend, or if we were a PFIC for the preceding taxable year. Likewise, such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders.

Subject to certain conditions and limitations, Israeli tax withheld on dividends may be deducted from your taxable income or credited against your U.S. federal income tax liability. If you are a U.S. Holder, dividends paid to you with respect to our ordinary shares will generally be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. However, for periods in which we are a “U.S.-owned foreign corporation,” a portion of dividends paid by us may be treated as U.S. source solely for purposes of the foreign tax credit. We would be treated as a U.S.-owned foreign corporation if 50% or more of the total value or total voting power of our shares are owned, directly, indirectly or constructively by U.S. persons. To the extent any portion of our dividends is treated as U.S. source income pursuant to this rule, the ability of a U.S. Holder to claim a foreign tax credit for any Israeli withholding taxes payable in respect of our dividends may be limited. A U.S. Holder entitled to benefits under the U.S.-Israel Tax Treaty may, however, elect to treat any dividends as foreign source income for foreign tax credit purposes if the dividend income is separated from other income items for purposes of calculating the U.S. Holder’s foreign tax credit. U.S. Holders should consult their own tax advisors about the impact of, and any exception available to, the special sourcing rule described in this paragraph, and the desirability of making, and the method of making, such an election.

The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that we distribute generally should constitute “passive category income,” or, in the case of certain U.S. Holders, “general category income.” A foreign tax credit for foreign taxes imposed on distributions may be denied if you do not satisfy certain minimum holding period requirements. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisor to determine whether and to what extent you will be entitled to this credit.

Subject to the discussion below under “Backup Withholding Tax and Information Reporting Requirements,” if you are a Non-U.S. Holder, you generally will not be subject to U.S. federal income (or withholding) tax on dividends received by you on our ordinary shares, unless you conduct a trade or business in the United States and such income is effectively connected with that trade or business (or, if required by an applicable income tax treaty, the dividends are attributable to a permanent establishment or fixed base that such holder maintains in the United States).

#### ***Sale, Exchange or Other Taxable Disposition of Ordinary Shares***

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” if you are a U.S. Holder, you generally will recognize gain or loss on the sale, exchange or other taxable disposition of our ordinary shares equal to the difference between the amount realized on such sale, exchange or other taxable disposition and your adjusted tax basis in our ordinary shares, and such gain or loss will be capital gain or loss. If Israeli tax is imposed on the sale, exchange or other disposition of our ordinary shares, a U.S. Holder’s amount realized will include the gross amount of the proceeds before deduction of the Israeli tax. The adjusted tax basis in an ordinary share generally will be equal to the cost of such ordinary share. If you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other taxable disposition of ordinary shares is generally eligible for a preferential rate of taxation applicable to capital gains, provided that your holding period for such ordinary shares exceeds one year (i.e., such gain is long-term capital gain). The deductibility of capital losses for U.S. federal income tax purposes is subject to limitations under the Code.

Any gain or loss that a U.S. Holder recognizes from the sale, exchange or other taxable disposition of our ordinary shares generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes. Accordingly, because you may use foreign tax credits to offset only the portion of U.S. federal income tax liability that is attributed to foreign source income, you may be unable to claim a foreign tax credit with respect to the Israeli tax, if any, on gains from the sale, exchange or other taxable disposition of our ordinary shares. You should consult your tax advisor as to whether the Israeli tax on gains may be creditable against your U.S. federal income tax on foreign-source income from other sources.

Subject to the discussion below under “Backup Withholding Tax and Information Reporting Requirements,” if you are not a U.S. Holder, you generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of our shares, unless:

- such gain is effectively connected with your conduct of a trade or business in the United States;
- or you are an individual and have been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

#### ***Passive Foreign Investment Company Considerations***

A non-U.S. corporation will generally be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules with respect to the income and assets of subsidiaries, either:

- at least 75% of its gross income is “passive income”; or
- at least 50% of the average quarterly value of its total gross assets (which generally may be measured in part by the market value of its ordinary shares, which is subject to change) is attributable to assets that produce passive income or are held for the production of passive income.

Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities transactions and from the sale or exchange of property that gives rise to passive income. Assets that produce or are held for the production of passive income may include cash, even if held as working capital or raised in a public offering, marketable securities and other assets that may produce passive income. In determining whether a non-U.S. corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) is taken into account.



Our status as a PFIC will depend on the nature and composition of our income and the nature, composition and value of our assets from time to time. The 50% passive asset test described above is generally based on the fair market value of each asset, with the value of goodwill and going concern value determined in large part by reference to the market value of our ordinary shares, which may be volatile. If we are a CFC and not publicly traded for the relevant taxable year, however, the test shall be applied based on the adjusted tax bases of our assets.

The New Regulations modify certain of the rules described above. Such modifications include, for example, permitting asset value to be determined more frequently than on a quarterly basis and treating a non-U.S. corporation as publicly traded for a taxable year if the stock of such corporation is publicly traded, other than in *de minimis* quantities, for at least twenty trading days during such taxable year.

The New Regulations generally apply to taxable years of shareholders beginning on or after January 14, 2021. A shareholder, however, may choose to apply such rules for any open taxable year beginning before January 14, 2021, provided that, with respect to a non-U.S. corporation being tested for PFIC status, the shareholder consistently applies certain of the provisions of the New Regulations and certain other Treasury Regulations for such year and all subsequent years. U.S. Holders should consult their own tax advisors regarding the impact and applicability of the New Regulations.

Based on our determination that our shares are properly treated as being publicly traded for the taxable year ended December 31, 2020 and our estimates of the fair market values of our assets, we believe that we should not be classified as a PFIC in the taxable year ended December 31, 2020. This determination is, however, subject to uncertainty. In particular, the determination of whether we are, or will be, a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. It is possible that the IRS will disagree with the interpretation on which our belief about our PFIC status is based, and no ruling from the IRS concerning our PFIC status has been obtained or is currently planned to be requested. Moreover, because PFIC status is based on our income, assets, and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for any subsequent year until after the close of the relevant year. Accordingly, no assurances can be made regarding our PFIC status in one or more subsequent years. Our U.S. counsel expresses no opinion with respect to our PFIC status in the taxable year ended December 31, 2020 or for any other taxable year, and also expresses no opinion with respect to our predictions or past determinations regarding our PFIC status in the past or in the future. We will continue to determine whether we were a PFIC or not for each taxable year and make such determination available to U.S. Holders.

If we are a PFIC in any taxable year during which a U.S. Holder owns ordinary shares, such U.S. Holder could be liable for additional taxes and interest charges upon (i) a distribution paid during a taxable year that is greater than 125% of the average annual distributions paid in the three preceding taxable years, or, if shorter, the U.S. Holder's holding period for the ordinary shares, and (ii) any gain recognized on a sale, exchange or other taxable disposition, including a pledge, of the ordinary shares, whether or not we continue to be a PFIC. In these circumstances, the tax will be determined by allocating such distribution or gain ratably over the U.S. Holder's holding period for the ordinary shares. The amount allocated to the current taxable year (i.e., the year in which the distribution occurs or the gain is recognized) and any year prior to the first taxable year in which we are a PFIC will be taxed as ordinary income earned in the current taxable year. The amount allocated to other taxable years will be taxed at the highest marginal rates in effect for individuals or corporations, as applicable, to ordinary income for each such taxable year, and an interest charge, generally applicable to underpayments of tax, will be added to the tax. If we are a PFIC for any year during which a U.S. Holder holds the ordinary shares, we must generally continue to be treated as a PFIC by that holder for all succeeding years during which the U.S. Holder holds the ordinary shares, unless we cease to meet the requirements for PFIC status and the U.S. Holder makes a "deemed sale" election with respect to the ordinary shares. If such election is made, the U.S. Holder will be deemed to have sold the ordinary shares it holds at their fair market value on the last day of the last taxable year in which we qualified as a PFIC, and any gain from such deemed sale would be subject to the consequences described above. After the deemed sale election, the U.S. Holder's ordinary shares with respect to which the deemed sale election was made will not be treated as shares in a PFIC, unless we subsequently again become a PFIC.

If we are a PFIC for any taxable year during which a U.S. Holder holds the ordinary shares and one of our non-U.S. subsidiaries is also a PFIC (i.e., a lower-tier PFIC), such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC and would be subject to the rules described above on certain distributions by the lower-tier PFIC and a disposition of shares of the lower-tier PFIC, even though such U.S. Holder would not receive the proceeds of those distributions or dispositions. Each U.S. Holder is advised to consult its tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

The tax consequences that would apply if we were a PFIC in any taxable year would be different from those described above if a timely and valid "mark-to-market" election is made by a U.S. Holder for the ordinary shares held by such U.S. Holder. An electing U.S. Holder generally would take into account as ordinary income each year, the excess of the fair market value of the ordinary shares held at the end of the taxable year over the adjusted tax basis of such ordinary shares. The U.S. Holder would also take into account, as an ordinary loss each year, the excess of the adjusted tax basis of such ordinary shares over their fair market value at the end of the taxable year, but only to the extent of the excess of amounts previously included in income over ordinary losses deducted in prior years as a result of the mark-to-market election. The U.S. Holder's tax basis in the ordinary shares would be adjusted to reflect any income or loss recognized as a result of the mark-to-market election. Any gain from a sale, exchange or other taxable disposition of the ordinary shares in any taxable year in which we are a PFIC would be treated as ordinary income and any loss from such sale, exchange or other taxable disposition would be treated first as ordinary loss (to the extent of any net mark-to-market gains previously included in income) and thereafter as capital loss. If, after having been a PFIC for a prior taxable year, we cease to be classified as a PFIC, the U.S. Holder would not be required to take into account any latent gain or loss in the manner described above and any gain or loss recognized on the sale or exchange of the ordinary shares would be classified as a capital gain or loss.

A mark-to-market election is available to a U.S. Holder only for “marketable stock.” Generally, ordinary shares will be considered marketable stock if it is “regularly traded” on a “qualified exchange” within the meaning of applicable Treasury Regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. The ordinary shares will be marketable stock as long as they remain listed on a qualified exchange, such as the NYSE or Nasdaq, and are regularly traded. A mark-to-market election will not apply to the ordinary shares for any taxable year during which we are not a PFIC, but will remain in effect with respect to any subsequent taxable year in which we become a PFIC. Such election will not apply to any subsidiary that we own. Accordingly, a U.S. Holder may continue to be subject to the PFIC rules with respect to any lower-tier PFICs notwithstanding the U.S. Holder’s mark-to-market election for the ordinary shares.

The tax consequences that would apply if we were a PFIC in any taxable year would also be different from those described above if a U.S. Holder were able to make a valid “qualified electing fund,” or QEF, election.

If we are a PFIC in any taxable year, a U.S. Holder that makes a timely and valid QEF election for the first taxable year in which the holding period of its shares begins generally will not be subject to the default PFIC rules discussed above with respect to its shares. Rather, a U.S. Holder that makes a timely and valid QEF election will be subject to U.S. federal income tax on such U.S. Holder’s pro rata share of our ordinary earnings and net capital gain, if any. A U.S. Holder that makes a QEF election will be subject to U.S. federal income tax on such amounts for each taxable year in which the company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the company. However, for any taxable year in which the company is a PFIC and has no net income or gain, U.S. Holders that have made a QEF election would not have any income inclusions as a result of the QEF election. If a U.S. Holder that made a QEF election has an income inclusion, such a U.S. Holder may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Holder is not a corporation, any such interest paid will be treated as “personal interest,” which is not deductible.

A U.S. Holder that makes a timely and effective QEF election with respect to the company generally (i) may receive a tax-free distribution from the company to the extent that such distribution represents “earnings and profits” of the company that were previously included in income by the U.S. Holder because of such QEF election and (ii) will adjust such U.S. Holder’s tax basis in the shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF election. In addition, a U.S. Holder that makes a QEF election generally will recognize capital gain or loss on the sale or other taxable disposition of shares. A QEF election will be treated as “timely” if such QEF election is made for the first year in the U.S. Holder’s holding period for the shares in which the company was a PFIC. A U.S. Holder may generally make a timely QEF election by filing a completed IRS Form 8621, including a PFIC Annual Information Statement, with its U.S. federal income tax return for such year. A retroactive QEF election generally may be made only by filing a protective statement with such return and if certain other requirements are met or with the consent of the IRS. If a U.S. Holder owns PFIC stock indirectly through another PFIC, separate QEF elections must be made for the PFIC in which the U.S. Holder is a direct shareholder and the subsidiary PFIC for the QEF rules to apply to both PFICs.

A QEF election will apply to the taxable year for which such QEF election is timely made and to all subsequent taxable years, unless such QEF election is invalidated or terminated or the IRS consents to revocation of such QEF election. If a U.S. Holder makes a QEF election in any taxable year in which the company is classified as a PFIC and, in a subsequent taxable year, the company ceases to be a PFIC, the QEF election will remain in effect (although it will not be applicable) during those taxable years in which the company is not a PFIC. Accordingly, if the company becomes a PFIC in another subsequent taxable year, the QEF election will be effective and the U.S. Holder will be subject to the QEF rules described above during any subsequent taxable year in which the company qualifies as a PFIC.

We will use commercially reasonable efforts to make available to U.S. Holders such information with respect to the company as is necessary for U.S. Holders to make QEF elections with respect to the company for any taxable year in which we determine that we are classified as a PFIC. We may elect to provide such information on our website.

Each U.S. Holder who is a shareholder of a PFIC must file an annual information report on IRS Form 8621 containing such information as the U.S. Treasury Department may require. The failure to file IRS Form 8621 could result in the imposition of penalties and the extension of the statute of limitations with respect to U.S. federal income tax.

The U.S. federal income tax rules relating to PFICs are very complex. U.S. investors are strongly urged to consult their own tax advisors with respect to the impact of these rules.

### ***Medicare Tax***

Certain U.S. Holders that are individuals, estates or trusts are subject to a 3.8% tax on all or a portion of their “net investment income,” which may include all or a portion of their dividend income and net gains from the disposition of ordinary shares. Each U.S. Holder that is an individual, estate or trust is urged to consult its tax advisors regarding the applicability of the Medicare tax to its income and gains in respect of its investment in our ordinary shares.

### ***Backup Withholding Tax and Information Reporting Requirements***

U.S. backup withholding tax and information reporting requirements may apply to certain payments to certain holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, our ordinary shares made within the United States, or by a U.S. payor or U.S. middleman, to a holder of our ordinary shares, other than an exempt recipient (including a payee that is not a U.S. person that provides an appropriate certification and certain other persons). A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, ordinary shares within the United States, or by a U.S. payor or U.S. middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Any amounts withheld under the backup withholding rules will be allowed as a credit against the beneficial owner’s U.S. federal income tax liability, if any, and any excess amounts withheld under the backup withholding rules may be refunded, provided that the required information is timely furnished to the IRS.

### ***Foreign Asset Reporting***

Certain U.S. Holders who are individuals are required to report information relating to an interest in our ordinary shares, subject to certain exceptions (including an exception for shares held in accounts maintained by U.S. financial institutions) by filing IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their federal income tax return. U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ordinary shares.

**The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation.**

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

We are subject to the informational requirements of the Exchange Act that are applicable to foreign private issuers, and under those requirements file reports with the SEC. Those other reports or other information may be inspected without charge at the locations described above. As a foreign private issuer, we are exempt from the rules under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders will be exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, we will file with the SEC, within 120 days after the end of each subsequent fiscal year, or such applicable time as required by the SEC, an annual report on Form 20-F containing financial statements audited by an independent registered public accounting firm, and will submit to the SEC reports on Form 6-K containing unaudited quarterly financial information within 60 days after the end of each fiscal quarter.

The SEC maintains an internet website that contains reports and other information regarding issuers that file electronically with the SEC. Our filings with the SEC are also available to the public through the SEC’s website at <http://www.sec.gov>.

#### **I. Subsidiary Information**

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our consolidated balance sheets, statements of operations or cash flows due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of foreign currency exchange and interest rates, which are discussed in detail below.

### *Foreign Currency Exchange Risk*

We generate substantially all of our revenues in U.S. dollars. The majority of our operating expenses is incurred in foreign currencies, and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the NIS, the Euro and, to a lesser extent, the British Pound.

Our statements of operations and cash flows could be adversely affected in the future due to changes in foreign exchange rates. For example, in the year ended December 31, 2020, a 10% decrease or increase in the relative value of the NIS against the U.S. dollar would have result in a \$3.9 million loss or gain, respectively, on our consolidated statements of operations. In addition, in the year ended December 31, 2020, a 10% decrease or increase in the relative value of the Euro against the U.S. dollar would have result in a \$1.0 million loss or gain, respectively, on our consolidated statements of operations.

In order to limit the foreign currency exchange risk, we have entered into forward contracts with major banks to protect against foreign currency exchange risks resulting from expenses paid in NIS and Euro during the year. See Note 9 to our consolidated financial statements under “Hedging Activities” for more information.

### *Interest Rate Sensitivity*

We are exposed to market risks resulting from changes in interest rates relating primarily to our cash, cash equivalents, bank deposits and marketable securities.

The primary objective of our investment policy is to preserve principal and maintain adequate liquidity while maximizing the interest income we receive from our investments, without significantly increasing the risk of loss. Our investment policy sets limits for minimum credit rating and maximum concentration per issuer, as well as maximum time to maturity. Our investments consist primarily of government and corporate debentures. We do not use derivative financial instruments to limit exposure to interest rate risk. Currently, we do not have any outstanding borrowings.

As of December 31, 2020, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income might not meet our expectations due to changes in market interest rates.

### **New and Revised Financial Accounting Standards**

Under the JOBS Act, we meet the definition of an “emerging growth company.” As such, we may avail ourselves of an extended transition period for complying with new or revised accounting standards. However, we have chosen to “opt out” of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### **A. Debt Securities**

Not applicable.

### **B. Warranties and Rights**

Not applicable.

### **C. Other Securities**

Not applicable.

### **D. American Depositary Shares**

Not applicable.

## PART II

## ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

## **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

### **Initial Public Offering**

The effective date of the registration statement (File no. 333-196991) for our IPO of ordinary shares, par value NIS 0.01, was April 11, 2019. Our IPO commenced on March 6, 2019 and was closed on April 15, 2019. J.P. Morgan Securities LLC, Barclays Capital Inc. and Jefferies LLC were joint book-running managers for the IPO and representatives of the underwriters. Oppenheimer & Co. Inc., Piper Jaffray & Co., Stifel, Nicolaus & Company, Incorporated and William Blair & Company, L.L.C. were co-managers for the IPO. We registered 7,700,000 ordinary shares in the IPO and granted the underwriters a 30-day over-allotment option to purchase up to 1,155,000 additional shares from us to cover over-allotments. The over-allotment was exercised in whole by the underwriters and these shares were closed on April 15, 2019.

As a result, we issued and sold a total of 8,855,000 ordinary shares at a price per share of \$14.00 with aggregate gross proceeds of approximately \$124.0 million (including the over-allotment option). Under the terms of the IPO, we incurred aggregate underwriting discounts of approximately \$8.7 million (including the over-allotment option) and expenses of approximately \$2.8 million in connection with the IPO, resulting in net proceeds to us of approximately \$112.5 million. None of the expenses was paid directly or indirectly to any director or officer of ours or to their associates, persons owning 10% or more of any class of our equity securities, or to any of our affiliates.

From the effective date of the registration statement and until December 31, 2020, we had used approximately \$8 million of the net proceeds of the IPO for working capital and general corporate purposes, including sales and marketing expenditures aimed at growing our business and research and development expenditures focused on product development. We may also use a portion of the net proceeds to hire additional personnel for our sales and marketing and research and development teams. We may also use a portion of the net proceeds to make acquisitions or investments in complementary companies or technologies, although we do not have any agreement or understanding with respect to any such acquisition or investment at this time.

None of the net proceeds of the IPO was paid directly or indirectly to any director or officer of ours or to their associates, persons owning 10% or more of any class of our equity securities, or to any of our affiliates.

## **ITEM 15. CONTROLS AND PROCEDURES**

### **A. Disclosure Controls and Procedures**

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2020. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2020 to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it 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.

### **B. Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, our management including our chief executive officer and chief financial officer assessed the effectiveness of internal control over financial reporting as of December 31, 2020. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2020.

### **C. Attestation Report of the Registered Public Accounting Firm**

This annual report does not include an attestation report of our registered public accounting firm due to the Company's status as an emerging growth company, as defined in Rule 12b-2 of the Exchange Act.

### **D. Changes in Internal Control over Financial Reporting**

Except for the remediation of the previously identified material weakness discussed below, there were no other changes in internal control over financial reporting during the year ended December 31, 2020 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

### ***Remediation Efforts of Previously Disclosed Material Weaknesses***

As discussed in our 2019 Annual Report on Form 20-F, in connection with the audit of our financial statements for the year ended December 31, 2019, management and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting.

In response to that material weakness, we implemented a remediation plan for the identified material weakness. As part of our remediation plan, during 2019 we recruited additional personnel with a requisite level of qualification and experience, including accounting and finance employees with the specific technical accounting and financial reporting experience necessary for a public company, including a VP of Finance, a Corporate Controller, a Senior Manager of Sarbanes-Oxley Compliance, a Manager for the payroll compensation and treasury departments, a Controller of Revenue Recognition, a senior bookkeeping team manager and additional bookkeepers and finance employees. We have recruited these personnel after considering the appropriateness of each individual's experience and believe that these personnel are qualified to serve in their current respective roles.

In addition, we reviewed our existing processes and controls in order to identify additional control deficiencies and designed new controls or adjusted the design of existing controls in order to improve our processes and controls. The new controls and the revised existing controls included controls to address the complex accounting issues, period-end financial reporting and segregation of duties. Moreover, we performed a review of conflicting user access rights and privileges within its IT systems for all sensitive transactions, particularly within our ERP system and updated user access rights and privileges where conflicts with appropriate segregation of duties were identified.

Based on the above, and the results of testing conducted during the year ended December 31, 2020, we concluded that the identified material weakness was remediated as of December 31, 2020.

### **ITEM 16. [RESERVED]**

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Dafna Gruber and Peter Campbell are audit committee financial experts as defined by the SEC rules, have the requisite financial experience as defined by NYSE corporate governance rules and are "independent" as such term is defined in Rule 10A-3(b)(1) under the Exchange Act.

### **ITEM 16B. CODE OF ETHICS**

We have adopted a code of conduct and ethics applicable to our executive officers, directors and all other employees. A copy of the code is delivered to every employee of Tufin Software Technologies Ltd. and all of its subsidiaries, and is available to investors and others on our website at <http://investors.tufin.com> or by contacting our investor relations department. Pursuant to Item 16B of Form 20-F, if a waiver or amendment of the code of conduct (including the code of ethics) applies to our chief executive officer, chief financial officer or other persons performing similar functions and relates to standards promoting any of the values described in Item 16B(b) of Form 20-F, we will disclose such waiver or amendment on our website within five business days following the date of amendment or waiver in accordance with the requirements of Instruction 4 to such Item 16B. We granted no waivers under our code in 2020.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Principal Accountant Fees and Services**

We have recorded the following fees for professional services rendered by Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited, an independent registered public accounting firm, for the years ended December 31, 2019 and 2020:

	<u>2019</u>	<u>2020</u>
	<i>(in thousands)</i>	
Audit Fees	\$ 670	\$ 288
Tax Fees	79	107
Total	<u>\$ 749</u>	<u>\$ 395</u>

“Audit fees” are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent accountant provides, such as consents and assistance with and review of documents filed with the SEC as well as fees related to audits in connection with our initial public offering in April 2019 and public offering of our ordinary shares in December 2019.

“Tax fees” include fees for professional services rendered by our independent registered public accounting firm for tax compliance and tax advice on actual or contemplated transactions.

Our audit committee has adopted a pre-approval policy for the engagement of our independent accountant to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit service, audit-related service and tax services that may be performed by our independent accountants.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

As a foreign private issuer, we are permitted to comply with Israeli corporate governance practices instead of the applicable NYSE requirements for U.S. domestic issuers, provided that we disclose those NYSE Listing Rules with which we do not comply and the equivalent Israeli requirements that we follow instead. However, notwithstanding our ability to follow the corporate governance practices of our home country, Israel, we have elected to comply with NYSE corporate governance requirements that are applicable to U.S. domestic issuers. Nevertheless, we may, in the future, decide to rely on foreign private issuer exemptions and follow Israeli home country governance practices in lieu of complying with some or all NYSE corporate governance requirements, which may provide less protection to you than is accorded to investors of domestic issuers.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III****ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

See pages F-2 through F-31 of this annual report.

**TUFIN SOFTWARE TECHNOLOGIES LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

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*Report of Independent Registered Public Accounting Firm*

To the Shareholders and Board of Directors of Tufin Software Technologies Ltd.

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Tufin Software Technologies Ltd. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive loss, of redeemable convertible preferred shares and changes in shareholders' equity (deficit) and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Tel-Aviv, Israel  
March 2, 2021

/s/ Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
A member firm of PricewaterhouseCoopers International Limited

We have served as the Company's auditor since 2007.

TUFIN SOFTWARE TECHNOLOGIES LTD.

CONSOLIDATED BALANCE SHEETS  
U.S. dollars in thousands

	December 31,	
	2019	2020
<b>Assets</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 118,661	\$ 58,449
Restricted bank deposits	224	-
Marketable Securities - short term	-	19,586
Accounts receivable (net of allowance for credit losses of \$77 and \$85 at December 31, 2019 and December 31, 2020, respectively)	16,222	16,674
Prepaid expenses and other current assets	4,773	7,159
<b>Total current assets</b>	<b>139,880</b>	<b>101,868</b>
<b>NON CURRENT ASSETS:</b>		
Long-term restricted bank deposits	2,844	3,268
Marketable Securities - long term	-	22,705
Property and equipment, net	4,177	4,502
Operating lease assets	20,958	18,802
Deferred costs	5,640	6,348
Deferred tax assets	1,659	1,346
Other non-current assets	1,574	1,512
<b>Total non-current assets</b>	<b>36,852</b>	<b>58,483</b>
<b>Total assets</b>	<b>\$ 176,732</b>	<b>\$ 160,351</b>

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

**TUFIN SOFTWARE TECHNOLOGIES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
U.S. dollars in thousands (except share and per share data)

	December 31,	
	2019	2020
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 4,394	\$ 4,147
Employee and payroll accrued expenses	15,422	17,985
Other accounts payables	1,568	578
Operating lease liabilities – current	2,533	3,185
Deferred revenues	22,725	24,940
<b>Total current liabilities</b>	<b>46,642</b>	<b>50,835</b>
<b>NON-CURRENT LIABILITIES:</b>		
Long-term deferred revenues	12,838	12,815
Non-Current operating lease liabilities	22,000	20,240
Other non-current liabilities	930	1,282
<b>Total non-current liabilities</b>	<b>35,768</b>	<b>34,337</b>
<b>Total liabilities</b>	<b>\$ 82,410</b>	<b>\$ 85,172</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Ordinary shares of NIS 0.015 par value; 150,000,000 shares authorized at December 31, 2019 and December 31, 2020; 35,230,253 and 35,972,470 shares issued and outstanding at December 31, 2019 and December 31, 2020, respectively	145	148
Additional paid-in capital	162,609	178,864
Accumulated other comprehensive income	-	5
Accumulated deficit	(68,432)	(103,838)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>94,322</b>	<b>75,179</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 176,732</b>	<b>\$ 160,351</b>

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

TUFIN SOFTWARE TECHNOLOGIES LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
U.S. dollars in thousands (except per share data)

	Year Ended December 31,		
	2018	2019	2020
Revenues:			
Product	\$ 42,554	\$ 47,365	\$ 38,690
Maintenance and professional services	42,427	55,905	62,144
Total revenues	84,981	103,270	100,834
Cost of revenues:			
Product	2,324	2,716	2,940
Maintenance and professional services	11,112	17,141	17,307
Total cost of revenues	13,436	19,857	20,247
<b>Gross profit</b>	71,545	83,413	80,587
<b>Operating expenses:</b>			
Research and development	21,363	31,571	34,978
Sales and marketing	46,092	63,981	59,484
General and administrative	6,022	14,884	20,050
Total operating expenses	73,477	110,436	114,512
<b>Operating loss</b>	\$ (1,932)	\$ (27,023)	\$ (33,925)
Financial income (loss), net	(1,047)	(85)	114
Loss before taxes on income	\$ (2,979)	\$ (27,108)	\$ (33,811)
Taxes on income	(1,283)	(1,011)	(1,595)
Net loss	\$ (4,262)	\$ (28,119)	\$ (35,406)
Basic and diluted net loss per ordinary share	\$ (0.53)	\$ (1.04)	\$ (0.99)
Weighted average number of shares used in computing net loss per share - basic and diluted (in thousands)	8,046	27,088	35,674
<b>Comprehensive Loss</b>			
Net loss	\$ (4,262)	\$ (28,119)	\$ (35,406)
Other comprehensive income:			
Unrealized gain from available-for-sale securities	-	-	5
Total comprehensive loss	\$ (4,262)	\$ (28,119)	\$ (35,401)

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

TUFIN SOFTWARE TECHNOLOGIES LTD.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED SHARES AND  
CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

U.S. dollars in thousands (except share data)

	Redeemable Convertible Preferred Share		Ordinary Shares			Accumulated other comprehensive income	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital			
<b>Balance as of January 1, 2018</b>	16,416,749	\$ 26,699	7,966,612	29	6,994		(36,051)	(29,028)
Issuance of ordinary shares upon exercise of options			299,376	1	162			163
Share-based compensation					3,181			3,181
Net loss							(4,262)	(4,262)
<b>Balance as of December 31, 2018</b>	16,416,749	26,699	8,265,988	30	10,337		(40,313)	(29,946)
Issuance of ordinary shares upon exercise of options			1,674,044	7	2,289			2,296
Share-based compensation					10,927			10,927
Conversion of redeemable convertible preferred shares	(16,416,749)	(26,699)	16,416,749	70	26,629			26,699
Issuance of ordinary shares upon initial public offering, net			8,873,472	38	112,427			112,465
Net loss							(28,119)	(28,119)
<b>Balance as of December 31, 2019</b>	-	\$ -	\$ 35,230,253	\$ 145	\$ 162,609		\$ (68,432)	\$ 94,322
Issuance of ordinary shares upon exercise of options			742,217	3	1,230			1,233
Share-based compensation					15,025			15,025
Other comprehensive income						5		5
Net loss							(35,406)	(35,406)
<b>Balance as of December 31, 2020</b>	-	-	35,972,470	\$ 148	\$ 178,864	\$ 5	\$ (103,838)	\$ 75,179

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

**TUFIN SOFTWARE TECHNOLOGIES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
U.S. dollars in thousands

	Year ended December 31,		
	2018	2019	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (4,262)	\$ (28,119)	\$ (35,406)
<b>Adjustment to reconcile net loss to net cash provided by (used in) operating activities:</b>			
Depreciation	956	1,205	1,523
Share-based compensation	3,181	10,927	15,025
Amortization of premium on marketable securities	-	-	95
Exchange rate differences on cash, cash equivalents and restricted cash	380	(712)	(1,146)
Other	(67)	28	-
<b>Change in operating assets and liability items:</b>			
Accounts receivable, net	(3,224)	(1,506)	(452)
Prepaid expenses and other current assets	(3,895)	928	(2,640)
Deferred costs	(1,352)	(648)	(665)
Deferred taxes and other non-current assets	(149)	(1,994)	375
Trade payables	2,456	1,027	(247)
Employee and payroll accrued expenses	729	4,191	3,275
Other accounts payable and non-current liabilities	2,367	(1,923)	(416)
Net change in operating lease accounts	-	2,876	1,048
Deferred revenues	7,507	4,099	2,192
<b>Net cash provided by (used in) operating activities</b>	<b>4,627</b>	<b>(9,621)</b>	<b>(17,439)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of fixed assets	(1,690)	(2,548)	(2,070)
Investment in marketable securities	-	-	(44,381)
Proceeds from maturities of marketable securities	-	-	2,069
Other investing activities	55	(173)	-
<b>Net cash used in investing activities</b>	<b>(1,635)</b>	<b>(2,721)</b>	<b>(44,382)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from initial public offering, net of underwriting discounts	-	115,292	-
Payments of offering costs related to initial public offering	(130)	(2,645)	-
Proceeds from exercise of stock options	163	2,081	1,376
Changes in withholding tax related to employee stock plans	-	1,255	(713)
Payment of long-term loan	(667)	(222)	-
<b>Net cash provided by (used in) financing activities</b>	<b>(634)</b>	<b>115,761</b>	<b>663</b>
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b>	<b>(380)</b>	<b>712</b>	<b>1,146</b>
<b>INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>1,978</b>	<b>104,131</b>	<b>(60,012)</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR</b>	<b>15,620</b>	<b>17,598</b>	<b>121,729</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR</b>	<b>\$ 17,598</b>	<b>\$ 121,729</b>	<b>\$ 61,717</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid for income taxes	\$ 1,027	\$ 1,578	\$ 2,419
Cash paid for interest	95	4	-
Property and equipment purchased but not yet paid	315	271	49
Unpaid offering costs	600	52	-
Operating lease liabilities arising from obtaining operating right of use assets	-	10,063	-
Conversion of redeemable convertible preferred shares	-	26,699	-
Exercise of share options	\$ -	\$ 228	\$ 85

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

TUFIN SOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1: GENERAL**

***Business Description***

Tufin Software Technologies Ltd. (together with its subsidiaries, “Tufin” or the “Company”) is an Israeli company that develops, markets and sells software-based solutions that help organizations visualize, define and enforce a unified security policy across complex, heterogeneous network environments. Tufin’s solutions automate security policy management, and allow organizations to gain visibility and control over their IT and cloud environments. Substantially all of the Company’s sales of products and services worldwide are made through a global network of distributors and resellers, which sell the products and services to their end-user customers.

The Company was incorporated as an Israeli company on January 2, 2005 and commenced operations on that date. The Company has incorporated wholly owned subsidiaries in the United States, the United Kingdom, Germany, France, Australia and Romania.

In April 2019, the Company completed its initial public offering (“IPO”) in which it sold 8,855,000 ordinary shares to the public, including 1,155,000 ordinary shares pursuant to an option granted to the underwriters. The Company received aggregate net proceeds from the IPO of approximately \$112,465 thousand, net of underwriting discounts and offering expenses payable by the Company. Upon the execution of the IPO, the Company’s outstanding redeemable convertible preferred shares were converted into 16,416,749 ordinary shares.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

***a. Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company evaluates on an ongoing basis its assumptions, including those related to contingencies, income taxes, deferred taxes, share-based compensation, leases and revenue recognition, as well as deferred contract costs. The Company’s management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

COVID-19 has rapidly changed market and economic conditions globally and may continue to create significant uncertainty in the macroeconomic environment. The extent of the impact of COVID-19 on the Company’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Company’s customers and its sales cycles, as well as the impact on its employees.

Since the spread of the outbreak began to accelerate late in March of 2020, the Company has been monitoring the developments relating to COVID-19, and has been acting to mitigate adverse implications as needed. As part of its actions, the Company has made adjustments to its operations and executed certain cost reduction initiatives, including workforce reduction.

The Company considered the impact of COVID-19 on its estimates and assumptions. As of the date of issuance of these financial statements, the Company is not aware of any specific event or circumstance that would require the Company to update its estimates, assumptions and judgments or revise the carrying value of its assets or liabilities.

As COVID-19 may continue to evolve and additional information is obtained, the Company may be required to update its estimates and assumptions. Actual results could differ from those estimates and any such differences may be material to the Company’s financial statements. The Company will continue to monitor the evolving situation and will assess the relevant implications on its consolidated financial statements.

**TUFIN SOFTWARE TECHNOLOGIES LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***b. Principles of Consolidation***

The consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

***c. Functional Currency and Foreign Currency Transactions***

A substantial majority of the Company's operations are carried out by the Company in Israel and in the United States. The majority of the Company's revenues are denominated in U.S. dollars. The Company's management believes that the U.S. dollar is the currency of the primary economic environment in which the Company and each of its subsidiaries operates. Thus, the functional currency of the Company is the U.S. dollar.

Accordingly, monetary balances denominated in currencies other than the U.S. dollar are re-measured into U.S. dollars in accordance with Statement of the Accounting Standard Codification ("ASC") No. 830 "Foreign Currency Matters" ("ASC No. 830"). All transaction gains and losses of the re-measured monetary balance sheet items are reflected in the consolidated statement of comprehensive loss as financial income or expenses, as appropriate.

***d. Cash and Cash Equivalents***

Cash equivalents are short-term highly liquid deposits that are readily convertible to cash with original maturities of three months or less, at the date acquired.

***e. Restricted Bank Deposits***

As of December 31, 2019 and 2020, the Company's bank deposits were denominated in U.S. dollars and NIS and bore yearly interest at weighted average deposits rates of 1.44% and 1.39%, respectively. These deposits are primarily used for collateralizing the Company's lease contracts, credit cards and for the Company's hedging activities.

Restricted bank deposits are classified under current assets and non-current assets based on the expected expiration date of the respective restriction. Bank deposits are presented at their cost, including accrued interest.

The Company includes its restricted bank deposits in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows (see also Note 4 to the consolidated financial statements).



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*f. Marketable Securities*

The Company accounts for its investments in marketable securities in accordance with ASC No. 320, “Investments—Debt and Equity Securities”. The Company determines the appropriate classification of its investments in marketable securities at the time of purchase and re-evaluates the appropriate classifications at each balance sheet date. As of December 31, 2020, all of the Company’s investments in marketable debt securities are classified as available-for-sale. The Company’s available-for-sale marketable debt securities primarily consist of U.S. government, U.S. government agencies and corporate debt. Accordingly, the Company’s marketable debt securities are recorded at fair value on the balance sheet. Unrealized gains and losses on marketable debt securities classified as available-for-sale are recorded in other comprehensive income (loss). Realized gains and losses on sale of marketable debt securities are included in financial income (expense), net in the consolidated statement of comprehensive loss. The cost of marketable securities sold is determined using the specific identification method. The amortized cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in the Company’s financial income (expenses), net in the consolidated statement of comprehensive loss. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument’s underlying contractual maturity date.

When the estimated fair value of a debt security is below its amortized cost, the debt security is assessed using the Current Expected Credit Losses model (in accordance with ASU 2016-13) in order to determine what portion of that difference, if any, is caused by expected credit losses. The amortized cost of the debt security will be reduced to its fair value if it is more likely than not that the Company is required to sell the impaired security before recovery of its amortized cost basis, or it has the intention to sell the security. If neither of these conditions are met, the Company determines whether the impairment is due to credit losses by comparing the present value of the expected cash flows of the security with its amortized cost basis. The amount of impairment recognized is limited to the excess of the amortized cost over the fair value of the security. An allowance for credit losses for the excess of amortized cost over the expected cash flows is recognized in financial income (expenses), net on the consolidated statements of comprehensive loss.

During 2020, the Company did not recognize an allowance for credit losses on its available-for-sale marketable debt securities.

*g. Accounts Receivable*

Accounts receivable are recorded based on the invoiced amount and presented in the Company’s consolidated balance sheet net of allowance for credit losses for potential uncollectible amounts. The allowance for credit losses is based on the Company’s assessment of collectability by reviewing accounts receivable on an aggregated basis where similar characteristics exist and on an individual basis when it identifies specific customers with known disputes or collectability issues. In addition, the Company considers a number of factors to assess collectability, including the past due status, creditworthiness of the specific customer, payment history and reasonable and supportable forecasts of future economic conditions, as well as other applicable forward-looking information in order to calculate its estimated credit losses. Changes in the allowance for expected credit losses are recorded under general and administrative expenses in the consolidated statements of comprehensive loss.

The Company’s allowance for credit losses for its accounts receivable consists of the following activity:

	December 31,		
	2018	2019	2020
	<i>(U.S. \$ in thousands)</i>		
Beginning balance	\$ 63	\$ 97	\$ 77
Charged to general and administrative	34	31	85
Accounts receivable write-off	-	(51)	(77)
Ending Balance	<u>\$ 97</u>	<u>\$ 77</u>	<u>\$ 85</u>

When revenue recognition criteria are not met for a sale transaction that has been billed, the Company does not recognize deferred revenues on the balance sheet or the related account receivable. Accordingly, as of December 31, 2019 and 2020, \$22,032 thousand and \$22,936 thousand, respectively, were offset from accounts receivable and corresponding amounts were offset from deferred revenues (see Note 8).

TUFIN SOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

***h. Leases***

ASC No. 842 “Leases” (“ASC No. 842”) became effective for the Company on January 1, 2019. The Company adopted ASC No. 842 on January 1, 2019, using a modified retrospective transition approach. The Company has also elected to utilize the available package of practical expedients permitted under the transition guidance within ASC No. 842 which does not require it to reassess the prior conclusions about lease identification, lease classification and initial direct costs. Consequently, financial information was not adjusted, and the disclosures required under the new standard are not provided for dates and periods before January 1, 2019.

The Company determines if an arrangement is a lease at inception. If an arrangement is a lease, the Company determines whether it is an operating lease or a finance lease at the lease commencement date. As of December 31, 2019 and 2020, the Company did not have any finance leases. Operating leases are included in operating lease assets, operating lease liabilities – current, and non-current operating lease liabilities in the Company’s consolidated balance sheets.

Operating lease assets represent the Company’s right to control the use of an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of the lease payments. The incremental borrowing rate was estimated based on factors such as the lease term, credit standing and the economic environment of the location of the lease.

Variable lease payments, including payments based on an index or a rate, are expensed as incurred and are not included within the operating lease asset and operating lease liabilities. The Company does not separate non-lease components from lease components for its leases of real estate.

The Company’s lease terms are the noncancelable periods, including any rent-free periods provided by the lessor, and include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. At lease inception, and in subsequent periods as necessary, the Company estimates the lease term based on its assessment of extension and termination options that are reasonably certain to be exercised. Lease costs are recognized on a straight-line basis over the lease term. The Company does not recognize operating lease asset and operating lease liabilities for leases with terms shorter than 12 months. Lease costs for short-term leases are recognized on a straight-line basis over the lease term.

***i. Property and Equipment***

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the residual value of the related assets at the following annual rates:

	%
Furniture and fixtures	10
Computers and software	33
Leasehold improvements	10-33
Electronic equipment	15-33

Leasehold improvements are depreciated by the straight-line method over the shorter of the term of the lease (including reasonably assured option periods, if applicable), or the estimated useful life of the improvements.

***j. Long-Lived Assets***

The long-lived assets of the Company are reviewed for impairment in accordance with ASC No. 360, “Property, Plant and Equipment” (“ASC No. 360”), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by such assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During the years ended December 31, 2018, 2019 and 2020, no impairment triggering events were identified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**k. Severance Pay**

Israeli labor law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The Company makes ongoing deposits into its Israeli employee pension plans to fund their severance liabilities. For its employees who are employed under Article 14 of the Severance Compensation Act, 1963 (“Article 14”), the Company makes deposits with certain insurance companies for accounts controlled by each applicable employee in order to secure the employee’s rights upon termination. In addition, the related obligations and amounts deposited on behalf of the applicable employees for such obligations are not presented on the Company’s consolidated balance sheets, as the amounts funded are not under the control and management of the Company and the Company is legally released from the obligation to pay any severance payments to the employees once the required deposit amounts have been paid.

For the Company’s employees in Israel that began employment prior to Article 14, the Company calculates the liability for severance pay based on the most recent salary of these employees multiplied by the number of years of employment as of the Article 14 inception date. These liabilities are presented under other non-current liabilities in the Company’s consolidated balance sheets. The amounts used to fund these liabilities are included in the Company’s consolidated balance sheets under other non-current assets.

Expenses incurred under the Company’s severance and pension plans in connection with its Israeli employees, which represent the majority of the Company’s severance expense, for the years ended December 31, 2018, 2019 and 2020, were \$2,330 thousand, \$3,091 thousand and \$3,659 thousand, respectively.

In addition, the Company’s employees in other jurisdictions are entitled to certain pension plans and related severance payments in accordance with local laws and practices. These plans are accounted as contribution plans.

**l. Revenue Recognition**

The Company follows the five-step model to recognize revenue under ASC 606: (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies its performance obligations.

For each arrangement the Company assesses whether it is acting as the principal that has promised to provide goods or services to its customers or an agent which arranges for goods or services to be provided by the principal to an end customer. The Company’s revenue is reported net of discounts, sales tax, value added tax and related surcharges.

The Company generates revenues from selling (i) software license (perpetual and term-based), (ii) maintenance, (iii) hardware (iv) professional services and (v) software as a service (“SaaS”). The Company sells its products and services primarily through distributors and resellers and also through its direct sales force.

The Company determines the appropriate revenue recognition for its contracts with customers by analyzing the type, terms and conditions of each contract or arrangement with a customer. The Company classifies the components of revenue as product or services revenue based on the attributes of the underlying performance obligations. Accordingly, software license and hardware are classified as product revenues.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's contract payment terms typically range between 30 and 120 days. The Company assesses collectability based on several factors, including collection history.

The Company elected to disregard the effects of a financing component when the period between when the entity transfers a promised good or service to the customer and when the customer pays for that good or service is one year or less.

*Nature of Products and Services*

The Company's on-premise software licenses are sold through both perpetual and term-based license agreements. These licensing arrangements provide customers with the same product functionality and differ mainly in the duration over which the customer benefits from the software. The Company delivers its software licenses electronically. Electronic delivery occurs when the Company provides the customer with access to the software and license key via a secure portal. Revenue from on-premise software licenses is generally recognized upfront at the point in time when the software is made available to the customer. Hardware revenue is recognized upon delivery which is the point in time at which control has passed.

The Company's contracts with customers for on-premise software licenses include maintenance services and may also include additional professional services, such as training, consulting and implementation. Maintenance services agreements consist of fees for providing software updates on an if and when available basis and for providing technical support for software products for a specified term. Both software updates and technical support have the same pattern of transfer to the customer. Revenues related to maintenance services are recognized ratably over the term of the related maintenance agreement. Revenues related to SaaS are also recognized ratably over the term of the related agreement. Revenues related to professional services are recognized as the services are performed or upon the fulfillment of the performance obligation of the related professional services. Payments received in advance of services performed are deferred and recognized when the related services are performed.

In contracts with multiple performance obligations, the Company accounts for individual performance obligations separately if they are distinct. The Company allocates the transaction price to each performance obligation based on its relative standalone selling price out of total consideration of the contract. For maintenance and support, the Company determines the standalone selling price based on the price at which the Company separately sells a renewal contract. The Company determines the standalone selling price for sales of licenses using the residual approach as the Company's licenses are not sold on a standalone basis and due to the high variability of the licenses' sales prices. For professional services and SaaS, the Company determines the standalone selling prices based on the price at which the Company separately sells those services.

**m. *Deferred Contract Costs***

The Company accounts for deferred contract costs in accordance with ASC No. 340-40, "Other Assets and Deferred Costs" ("ASC 340-40"). Under ASC 340-40, incremental costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained, provided the Company expects to recover the costs, are deferred.

The Company defer contract costs that are recoverable and incremental to obtaining customer sales contracts. These costs include sales commissions to sales and marketing and certain management personnel based on their attainment of certain predetermined sales goals. Sales commissions paid for initial contracts, which are not commensurate with sales commissions paid for renewal contracts, are deferred and amortized over an expected period of benefit. Based on its technology, customer contracts and other factors, the Company has determined the expected period of benefit to be approximately four years. Sales commissions for renewal contracts are deferred and then amortized on a straight-line basis over the related contractual period. Amortization expenses related to these costs are primarily included in sales and marketing expenses in the consolidated statements of comprehensive loss. The Company presents deferred contract costs from contracts which are less than 12 months under prepaid expenses and other current assets and deferred contract costs related to contracts that are greater than 12 months under deferred costs (see also Note 8 to the consolidated financial statements).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

***n. Cost of Revenues***

Cost of product revenues consist primarily of costs associated with the processing and the delivery of the Company's software licenses to the customers as well as third-party hardware and related shipping costs. Cost of maintenance and professional services revenues consist primarily of personnel costs responsible for providing maintenance and support and professional services. The Company sources its hardware from a single third-party provider based in the U.S.

***o. Accounting for Share-Based Compensation***

The Company accounts for share-based compensation, including stock options and restricted stock units ("RSUs") in accordance with ASC No. 718, "Compensation-Stock Compensation" ("ASC 718"). ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an Option-Pricing Model ("OPM").

The Company selected the Black-Scholes-Merton option pricing model as the most appropriate fair value method for its stock options awards. The Company's option pricing model requires the input of highly subjective assumptions, including the expected share price volatility and expected term. Any changes in these highly subjective assumptions would significantly impact the share-based compensation expense.

The fair value of stock options granted to employees is estimated at the date of grant using the following assumptions:

The risk-free interest rate assumption is based on the implied yield curve, at the time of grant, on U.S. treasury zero-coupon issues with a remaining term equal to the expected term of the Company's stock options. The dividend yield assumption is based on the Company's historical experience and expectation of no future dividend payouts and may be subject to substantial changes in the future. The Company has historically not paid cash dividends and has no foreseeable plans to pay cash dividends in the future. The expected share price volatility is based on the historical volatility of the ordinary shares of comparable companies that are publicly traded, as well as the historical volatility of the Company's ordinary shares. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The expected option term is calculated using the simplified method, as the Company concludes that currently its historical share option exercise experience does not provide an adequate basis to estimate its expected option term. The fair value of the Company's ordinary shares underlying the share-based awards as of December 31, 2018 and for the period from January 1, 2019 to April 11, 2019, were estimated using the hybrid method which takes into consideration a probability-weighted of a non-IPO scenario (which is based on the income approach) and an IPO scenario. Commencing April 11, 2019, the Company's ordinary shares are publicly traded and are measured based on the Company's share price on the date of grant.

The fair value of the Company's RSUs is measured based on the fair value of the Company's ordinary shares on the date of grant.

The Company recognizes compensation expenses for its stock-based option awards and RSUs on the graded vesting attribution method over the requisite service period (primarily a four-year period).

Each of the above factors requires the Company to use judgment and make estimates in determining the inputs used for the calculation of the fair value of its stock-based option awards. If the Company were to use different inputs, the fair value of its stock-based option awards could be materially different.

***p. Research and Development Costs***

ASC 985 requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. The Company does not incur material costs between the completion of the working model and the point at which the products are ready for general release. Therefore, research and development costs are charged to the statement of comprehensive loss as incurred.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**q. Marketing Expense**

Marketing expenses consist primarily of marketing campaigns and tradeshow. Marketing expenses are charged to the statement of comprehensive loss, as incurred. Marketing expenses for the years ended December 31, 2018, 2019 and 2020, amounted to \$8,093, \$10,790 and \$7,158 thousand, respectively.

**r. Income Taxes**

The Company and its subsidiaries are subject to income taxes in the jurisdictions in which they operate. The Company's provision for income taxes is based on income tax rates in the tax jurisdictions in which it operates, permanent differences between financial reporting and tax reporting, and available credits and incentives. Deferred taxes are determined utilizing the "asset and liability" approach under ASC-740, "Income Taxes" ("ASC-740"). The asset and liability approach requires the recognition of deferred taxes based on the estimated future tax effects of temporary differences between the carrying amount and tax bases of assets and liabilities under the applicable tax laws, and on effective tax rates in effect when the deferred taxes are expected to be settled or realized. Deferred taxes for each jurisdiction are presented as a non-current net asset or liability, net of any valuation allowances.

Valuation allowances are provided unless it is more likely than not that the deferred tax asset will be realized. In determining the appropriate valuation allowances, the Company considers future reversals of existing taxable temporary differences, the most recent projections of future business results, prior earnings history, carryback and carry forward and prudent tax strategies that may enhance the likelihood of realization of a deferred tax asset.

Deferred taxes have not been provided for the following items:

- 1) Taxes that would apply in the event of disposal of investments in first-tier foreign subsidiaries, as it is generally the Company's intention to hold these investments, not to realize them.
- 2) Dividends distributable from the income of foreign subsidiaries as the Company does not expect these companies to distribute dividends in the foreseeable future. If these dividends were to be paid, the Company would have to pay additional taxes at a rate of up to 25% on the distribution, and the amount would be recorded as an income tax expense in the period the dividend is declared.

ASC-740 also clarifies the accounting and reporting for uncertainties in income tax. ASC-740 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company reevaluates these uncertain tax positions on a quarterly basis and makes adjustments as required.

The Company classifies interest and penalties recognized in the financial statements relating to uncertain tax positions within taxes on income.

**s. Basic and Diluted Net Loss Per Share:**

Basic net loss per ordinary share is computed by dividing net loss for each reporting period by the weighted-average number of ordinary shares outstanding during the year. Diluted loss per ordinary share is computed by dividing net loss for each reporting period by the weighted average number of ordinary shares outstanding during the period, plus dilutive potential ordinary shares considered outstanding during the period, in accordance with ASC 260-10 "Earnings Per Share".

The calculation of diluted net loss per share excludes potential share issuances of ordinary shares upon the exercise of share options, unvested RSUs, warrants to purchase ordinary shares and redeemable preferred shares as their effect is anti-dilutive.

The total number of shares related to outstanding stock options, warrants to purchase ordinary shares and redeemable preferred shares that have been excluded from the calculation of diluted net loss per share for the year ended December 31, 2018 was 6,750,259, 26,667 and 16,416,749 (out of which 27,778 shares represent receipt on account of preferred A shares), respectively. The total number of shares related to outstanding stock options, warrants to purchase ordinary shares and redeemable preferred shares that have been excluded from the calculation of diluted net loss per share for the year ended December 31, 2019 was 7,507,811, 26,667 and 16,416,749 (out of which 27,778 shares represent receipt on account of preferred A shares), respectively. The total number of shares related to outstanding stock options and unvested RSUs that have been excluded from the calculation of diluted net loss per share for the year ended December 31, 2020 was 6,930,143 and 1,311,702, respectively.

TUFIN SOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*t. Concentration of Credit Risks*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities, restricted bank deposits, trade receivables and derivative instruments.

The Company's cash and cash equivalents and restricted bank deposits are invested with major banks in Europe, Israel and the United States. Generally, these investments may be redeemed upon demand and the Company believes that the financial institutions that hold the Company's cash deposits are financially sound and, accordingly, bear minimal risk.

The Company's marketable debt securities consist of investments, which are highly rated by credit agencies, in government, corporate and government sponsored enterprises debentures. The Company's investment policy, approved by the Board of Directors, limits the amount that the Company may invest in any one type of investment or issuer, in order to reduce credit risk concentrations.

The trade receivables of the Company are mainly derived from sales to a diverse set of customers located primarily in the United States, Europe and Asia. Concentration of credit risk with respect to trade receivables is limited by credit limits, ongoing credit evaluation and account monitoring procedures.

As of December 31, 2019 and 2020, each of the following distributors comprised more than 10% of the Company's accounts receivable:

	December 31,	
	2019	2020
Customer A	14%	16%
Customer B	15%	12%
Customer C	12%	11%

For purposes of this calculation, the Company assessed distributors by aggregating distributors within the same holding group.

*u. Derivative Instruments and Hedging Activities*

The Company is exposed to global market risks and to the risk that its earnings, cash flows and equity could be adversely impacted by fluctuations in foreign exchange rates. As part of the Company's risk management strategy, it uses foreign currency exchange forward contracts and other derivative to hedge against certain foreign currency exposures. The derivative instruments hedge a portion of the Company's non-dollar currency exposure. The Company does not enter into derivative transactions for trading purposes. The Company recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at their fair value. Derivatives in a gain position are reported in other current assets in the consolidated balance sheets and derivatives in a loss position are recorded in other accounts payables in the consolidated balance sheets, on a gross basis.

All derivative contracts entered into by the Company are classified as non-hedging instruments and accordingly the Company records the changes in fair value of derivative instruments in financial income (expense), net in the consolidated statement of comprehensive loss.

*v. Fair Value of Financial Instruments*

The Company applies ASC No. 820, "Fair Value Measurements and Disclosures" ("ASC 820"), with respect to fair value measurements of all financial assets and liabilities. The Company's financial assets and liabilities that are measured at fair value on a recurring basis include marketable securities and derivative contracts.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

**TUFIN SOFTWARE TECHNOLOGIES LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 - Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.

Level 3 - Inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. The inputs require significant management judgment or estimation.

In accordance with ASC 820, the Company's foreign currency derivative instruments and marketable securities are classified within the Level 2 value hierarchy (see Note 3).

**w. *Legal Contingencies***

From time to time, the Company becomes involved in legal proceedings or is subject to claims arising in its ordinary course of business. Such matters are generally subject to many uncertainties and outcomes that are not predictable with assurance. The Company accrues for contingencies when the loss is probable, and it can reasonably estimate the amount of any such loss. Loss contingencies considered to be remote by the Company are generally not disclosed unless material. The respective legal fees are expensed as incurred.

**x. *Reverse Share Split***

On March 21, 2019, the shareholder general meeting of the Company approved a 1.5:1 reverse share split, which was effected on the date thereof.

References made to outstanding shares or per share amounts in the accompanying consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect this one for one and half (1:1.5) reverse stock split.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**y. *Recently Adopted Accounting Standards***

In August 2018, the FASB issued ASU 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.” ASU 2018-15 clarifies the accounting for costs incurred to implement a cloud computing hosting arrangement that is a service contract by establishing a model for capitalizing or expensing such costs, depending on their nature and the stage of the implementation project during which they are incurred and aligns the requirements for capitalization of such implementation costs with the existing guidance for internal-use software. Any capitalized costs are to be amortized over the reasonably certain term of the hosting arrangement and presented in the same line within the statement of operations as the related service arrangement’s fees. ASU 2018-15 also requires enhanced qualitative and quantitative disclosures surrounding hosting arrangements that are service contracts. The Company adopted ASU 2018-15 on a prospective basis, effective January 1, 2020, with no material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 that supersedes the existing impairment model for most financial assets to a model that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 requires an entity to recognize an impairment allowance equal to its current estimate of all contractual cash flows the entity does not expect to collect. ASU 2016-13 also requires that credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses. The Company adopted ASU 2016-13 on a modified retrospective basis, effective January 1, 2020, with no material impact on its consolidated financial statements.

**z. *Recently Issued Accounting Standards Not Yet Adopted***

In December 2019, the FASB issued ASU 2019-12 “Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes” (the “update”). The amendments in this update simplify the accounting for income taxes by removing the following exceptions in ASC 740: (1) exception to the incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or a gain from other items; (2) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; (3) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and (4) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

In addition, the update also simplifies the accounting for income taxes in certain topics as follows: (1) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax; (2) requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction; (3) specifying that an entity can elect (rather than be required to) allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; and (4) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

**TUFIN SOFTWARE TECHNOLOGIES LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3: FAIR VALUE MEASUREMENT**

The following tables summarize the Company's financial assets and liabilities that are carried at fair value on a recurring basis, by fair value hierarchy, on the consolidated balance sheet:

	<b>December 31,</b>	
	<b>2019</b>	<b>2020</b>
	<i>(U.S. \$ in thousands)</i>	
	<b>Level 2</b>	<b>Level 2</b>
<b>Assets:</b>		
Marketable securities	\$ -	\$ 42,291
Foreign currency exchange derivative instruments	81	295
<b>Liabilities:</b>		
Foreign currency exchange derivative instruments	7	8
	\$ 74	\$ 42,578

The Company's marketable securities are classified as Level 2 as these assets are valued using observable data, either directly or indirectly, that may include quoted market prices for similar instruments, broker-dealer quotes, market spreads, nonbinding market prices that are corroborated by observable market data and other observable market information.

The Company's foreign currency exchange derivative financial instruments are classified as Level 2, as they as they represent foreign currency forward and option contracts that are not actively traded and are valued using pricing models that use observable market inputs, including interest rate curves and both forward rates and spot prices for currencies (Level 2 inputs). The fair value of foreign currency exchange derivative instruments was estimated by obtaining current quotes from banks and third-party valuations.

Other financial instruments consist mainly of cash and cash equivalents, restricted bank deposits, accounts receivable, accounts payable and other accounts payables. The fair value of these financial instruments approximates their carrying values.

**NOTE 4: CASH, CASH EQUIVALENTS AND RESTRICTED CASH**

The following table provides a reconciliation of cash, cash equivalents and restricted bank deposits reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	<b>December 31,</b>	
	<b>2019</b>	<b>2020</b>
	<i>(U.S. \$ in thousands)</i>	
Cash and cash equivalents	\$ 118,661	\$ 58,449
Restricted bank deposits	224	-
Long-term restricted bank deposits	2,844	3,268
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$ 121,729	\$ 61,717

Amounts included in restricted bank deposits represent those required to be set aside by a contractual agreement with lease, hedging and credit card transactions.

TUFIN SOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: MARKETABLE SECURITIES

The following tables summarize the amortized cost, unrealized gains and losses, and fair value of available-for-sale marketable securities as of December 31, 2020:

	<b>December 31, 2020</b>			
	<b>(U.S. dollars in thousands)</b>			
	<b>Amortized cost</b>	<b>Gross unrealized losses</b>	<b>Gross unrealized gains</b>	<b>Fair value</b>
U.S. government and agency debentures	\$ 32,578	\$ (5)	\$ 1	\$ 32,574
Corporate debentures	9,708	(1)	10	9,717
<b>Total</b>	<b>\$ 42,286</b>	<b>\$ (6)</b>	<b>\$ 11</b>	<b>\$ 42,291</b>

	<b>December 31, 2020</b>	
	<b>(U.S. dollars in thousands)</b>	
	<b>Amortized cost</b>	<b>Fair value</b>
Due within one year	\$ 19,585	\$ 19,586
Due between one and two years	22,701	22,705
<b>Total</b>	<b>\$ 42,286</b>	<b>\$ 42,291</b>

TUFIN SOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2019	2020
<i>(U.S. \$ in thousands)</i>		
<b>Property and equipment, net:</b>		
Cost:		
Furniture and fixtures	\$ 1,640	\$ 1,883
Computers and software	4,328	4,731
Leasehold improvements	668	907
Electronic equipment	2,129	2,374
	<u>8,765</u>	<u>9,895</u>
Less - Accumulated depreciation	4,588	5,393
	<u>\$ 4,177</u>	<u>\$ 4,502</u>

Depreciation expenses were \$956 thousand, \$ 1,205 thousand and \$ 1,523 thousand in the years ended December 31, 2018, 2019 and 2020, respectively.

NOTE 7: LEASES

The Company entered into office lease arrangements where its administrative, research and development, support services and sales and marketing activities are located. Those lease arrangements have remaining terms of up to 9 years. As of December 31, 2020, the Company had operating lease right-of-use ("ROU") assets of \$18.8 million, of which \$15.9 were located in Israel, and the remaining ROU assets were located in the United States.

The components of lease expense during the period presented were as follows:

	Year Ended	
	December 31, 2019	December 31, 2020
<i>(U.S. \$ in thousands)</i>		
Operating lease expense	\$ 3,110	\$ 3,791
Short-term lease expense	786	545
Total lease expense	<u>\$ 3,896</u>	<u>\$ 4,336</u>

Rent expense for the years ended December 31, 2018 was approximately \$2,396 thousand.

**TUFIN SOFTWARE TECHNOLOGIES LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Supplemental cash flow information related to operating leases during the period presented was as follows:

	<b>Year Ended</b>	
	<b>December 31, 2019</b>	<b>December 31, 2020</b>
	<i>(U.S. \$ in thousands)</i>	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,602	\$ 4,169
ROU assets obtained in exchange for lease liabilities:		
Operating leases	\$ 10,063	\$ -

Lease term and discount rate related to operating leases as of the period presented were as follows:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2020</b>
Weighted-average remaining lease term (in years)	8.4	7.6
Weighted-average discount rate	7.5%	7.6%

The maturities of lease liabilities under operating leases as of December 31, 2020 are as follows:

	<i>(U.S. \$ in thousands)</i>
2021	4,378
2022	4,393
2023	4,128
2024	3,830
2025	3,307
Thereafter	10,198
Total undiscounted lease payments	\$ 30,234
Less: Imputed interest	(6,809)
Total lease liabilities	\$ 23,425

TUFIN SOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: DEFERRED REVENUES AND DEFERRED COSTS

	December 31,	
	2019	2020
<i>(U.S. \$ in thousands)</i>		
Deferred revenues:		
Deferred product revenues	\$ 695	\$ 1,515
Deferred maintenance and professional services revenues	56,900	59,176
	57,595	60,691
Less - amounts offset from accounts receivable	(22,032)	(22,936)
Deferred revenues	35,563	37,755
The change in deferred revenues:		
Balance at beginning of year	56,629	57,595
Deferred revenue relating to new sales	40,225	44,105
Revenue recognized during the year	(39,259)	(41,009)
Balance at end of year	57,595	60,691
Less - amounts offset from accounts receivable	(22,032)	(22,936)
Deferred revenues	\$ 35,563	\$ 37,755

As of December 31, 2020, the total remaining performance obligations amounted to \$65,517 thousand. The Company expects that it will satisfy its remaining performance obligations over a period of three years during which, on December 31, 2020, \$39,313 thousand will be recognized in the next twelve months, which constitutes 60% of total remaining performance obligations.

*Assets Recognized from the Costs to Obtain a Contract with a Customer*

The Company determined that certain costs related to its sales incentive programs meet the requirements to be capitalized and deferred. These assets are recorded as current and non-current assets. The Company amortizes these deferred costs over the benefit period, currently estimated to be four years. The Company considers the benefit period to exceed the initial contract term for certain costs because of anticipated renewals and because sales commission rates for renewal contracts are not commensurate with sales commissions for initial contracts.

	December 31,	
	2019	2020
<i>(U.S. \$ in thousands)</i>		
Balance at beginning of year	\$ 5,313	\$ 5,962
Additional costs deferred	3,436	3,398
Amortization of deferred costs	(2,787)	(2,733)
Balance at end of year	\$ 5,962	\$ 6,627

TUFIN SOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: HEDGING ACTIVITIES

The Company carries out transactions involving foreign currency exchange derivative financial instruments. The transactions are designed to hedge the Company's exposure in currencies other than the U.S. dollar, but are not designated as an accounting hedge. The Company is primarily exposed to foreign exchange risk with respect to recognized assets and liabilities and forecasted transactions denominated in NIS, Euro and GBP.

As of December 31, 2019 and 2020, the notional amounts of the Company's outstanding foreign currency exchange derivative financial instruments, not designated as accounting hedging instruments, were \$22.4 million and \$17.6 million, respectively, and were used to reduce foreign currency exposures of the NIS, Euro and GBP. With respect to such derivatives, losses of \$337 thousands and gains of \$366 thousand and \$86 thousand were recognized under financial income (expense), net for the years ended December 31, 2018, 2019 and 2020, respectively. Such gains and losses partially offset the revaluation impact of the balance sheet items, which are also recognized under financial income (expense), net.

	<b>Balance sheet location</b>	<b>Notional Amount</b>	<b>Fair Value</b>
		<b>December 31, 2020</b>	<b>December 31, 2020</b>
		<i>(U.S. \$ in thousands)</i>	
Assets derivatives - Foreign currency exchange contracts	Other current assets	\$ 8,796	\$ 295
Liability derivatives - Foreign currency exchange contracts	Other accounts payables	\$ 8,796	\$ 8

	<b>Balance sheet location</b>	<b>Notional Amount</b>	<b>Fair Value</b>
		<b>December 31, 2019</b>	<b>December 31, 2019</b>
		<i>(U.S. \$ in thousands)</i>	
Assets derivatives - Foreign currency exchange contracts	Other current assets	\$ 11,185	\$ 81
Liability derivatives - Foreign currency exchange contracts	Other accounts payables	\$ 11,185	\$ 7

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 10: SHAREHOLDERS' EQUITY****a) Share capital**

Each ordinary share confers upon its holder the right to one vote and to receive dividends as declared by the Board of Directors, which prior to the IPO was subject to the priority rights of holders of preferred shares.

In April 2019, the Company completed its IPO in which it sold 8,855,000 ordinary shares to the public, including 1,155,000 ordinary shares pursuant to an option granted to the underwriters. Upon the execution of the IPO, the Company's outstanding redeemable convertible preferred shares were converted into 16,416,749 ordinary shares. The remaining increase in the issued and outstanding ordinary shares during 2019 was attributable to exercises of stock options. Upon the closing of the Company's IPO in April 2019, warrants to purchase 26,667 ordinary shares were exercised on a cashless basis resulting an issuance of 18,472 ordinary shares.

The Company's ordinary shares are traded on the New York Stock Exchange under the ticker symbol "TUFN".

**b) Stock-based compensation plans**

Under the Company's 2007 Israeli Share Option Plan, as amended in August 2014, September 2015 and July 2017, or the 2007 Plan, its 2008 U.S. Stock Plan, or the 2008 Plan, its 2018 U.S. Equity-Based Incentive Plan, or the 2018 Plan, and the 2019 Equity-Based Incentive Plan, or the 2019 Plan, options exercisable for the Company's ordinary shares, par value NIS 0.015 per share, may be granted to employees, officers, non-employee consultants and directors of the Company. The 2007 Plan, the 2008 Plan, the 2018 Plan and the 2019 Plan are collectively referred to herein as the Plans.

On February 28, 2019, the Company's board of directors approved the 2019 Plan, which became effective upon shareholder approval on March 21, 2019. The 2019 Plan replaced the 2007 Plan, the 2008 Plan and the 2018 Plan, or the Prior Plans, under which further grants will not be made. The 2019 Plan generally allows for the grant of options, restricted shares, restricted share units and other share-based awards to the Company and its affiliates' employees. Any share (i) underlying an award under the Plans (in an amount not to exceed 813,515 shares under the Prior Plans) that has expired, or was canceled, terminated, forfeited, repurchased or settled in cash in lieu of the issuance of shares, for any reason, without having been exercised; (ii) tendered to pay the exercise price of an award (or the exercise price or other purchase price of any option or other award under the Prior Plans), or withholding tax obligations with respect to an award (or any awards under the Prior Plans); or (iii) subject to an award (or any award under the Prior Plans) that is not delivered to a grantee because such shares are withheld to pay the exercise price (or of any award under the Prior Plans), or withholding tax obligations with respect to such award (or such other award), will automatically be available for grant under the 2019 Plan.

Under the 2019 Plan, options and RSUs generally have a contractual term of ten years from the grant date. Options and RSUs granted become exercisable over the requisite service period, which is normally a four-year period beginning on the grant date, subject to continued service to the Company. As of December 31, 2020, 246,133 shares were available for future equity awards under the 2019 Plan. On January 1, 2021, the reserve pool under the 2019 Plan was increased by 1,798,624 shares.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Options

A summary of the stock option activity for the year ended December 31, 2020 is as follows:

	<u>Number of Options</u>	<u>Weighted average exercise price</u>	<u>Aggregate intrinsic value</u> <i>(U.S. \$ in thousands)</i>
Balance as of January 1, 2020	7,507,811	\$ 8.17	
Granted	936,500	\$ 10.72	
Exercised	(742,217)	\$ 1.66	
Forfeited	(771,951)	\$ 14.51	
Balance as of December 31, 2020	6,930,143	\$ 8.51	\$ 43,041
Exercisable as of December 31, 2020	3,947,211	\$ 5.01	\$ 34,711

The following table summarizes the Company's outstanding and exercisable options granted as of December 31, 2020:

<u>Exercise Price</u>	<u>Options Outstanding</u>		<u>Options Exercisable</u>	
	<u>Options outstanding as of December 31, 2020</u>	<u>Weighted average remaining contractual term (years)</u>	<u>Options exercisable as of December 31, 2020</u>	<u>Weighted average remaining contractual term (years)</u>
\$ 0.004 - \$ 1.76	3,551,405	8.9	3,029,037	9.3
\$ 7.55 - \$ 11.70	1,335,866	8.7	285,874	8.1
\$ 16.68 - \$ 19.21	1,153,275	8.6	321,309	8.6
\$ 22.70 - \$ 29.74	889,597	8.3	310,991	8.3
	<u>6,930,143</u>	<u>8.7</u>	<u>3,947,211</u>	<u>9.0</u>

The total intrinsic value of options exercised for the years ended December 31, 2019 and 2020 was approximately \$28,950 thousands and \$7,705 thousands, respectively.

The fair value of stock options granted was estimated using the Black-Scholes option-pricing model. The assumptions used to value options granted during the year ended December 31, 2019 and 2020 were as follows:

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2020</u>
Expected volatility	50.4%-65.9%	51.7%-56.2%
Expected dividends yields	0%	0%
Expected term (in years)	5.5-7.0	5.5-7.0
Risk free rate	1.53%- 2.63%	0.31%-1.03%
Weighted average grant date fair value	9.63	5.36

As of December 31, 2020, the Company had 2,982,932 unvested options. As of December 31, 2020, the total unrecognized compensation cost related to all unvested stock options of approximately \$8,849 thousands is expected to be recognized as an expense over a weighted-average recognition period of approximately 1.0 year.

TUFIN SOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Restricted Stock Units*

A summary of the Company's RSUs activity for the year ended December 31, 2020 is as follows:

	<u>Number of RSUs</u>	<u>Weighted Average Grant Date Fair Value</u>
Balance as of January 1, 2020	-	\$ -
Granted	1,346,522	\$ 9.23
Vested	-	\$ -
Forfeited	(34,820)	\$ 9.98
Unvested RSUs as of December 31, 2020	<u>1,311,702</u>	<u>\$ 9.21</u>

As of December 31, 2020, the unrecognized compensation cost related to all unvested RSUs of approximately \$7.5 million is expected to be recognized as an expense over a weighted-average recognition period of approximately 0.9 year.

In the first quarter of 2021, the Company granted certain of its employees 1,233,100 restricted stock units with a vesting period of four years.

Stock-based compensation expense for stock options and RSUs included in the Company's Statements of Comprehensive Loss were allocated as follows:

	<u>December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
	<i>(U.S. \$ in thousands)</i>		
Cost of revenues	\$ 634	\$ 1,514	\$ 2,024
Research and development	731	2,370	4,437
Sales and marketing	1,458	4,849	4,635
General and administrative	358	2,194	3,929
Total share-based compensation expense	<u>\$ 3,181</u>	<u>\$ 10,927</u>	<u>\$ 15,025</u>

TUFIN SOFTWARE TECHNOLOGIES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: INCOME TAXES

a. *Deferred Tax Assets and Liabilities*

The components of the Company's deferred tax assets and liabilities as of December 31, 2019 and 2020 were as follows:

	As of December 31,	
	2019	2020
<i>(U.S. \$ in thousands)</i>		
Deferred tax assets:		
Tax loss carryforwards	\$ 9,409	\$ 17,543
Research and development	6,141	7,132
Deferred revenue	2,238	1,480
Employee and payroll accrued expenses	891	1,335
Share-based compensation	-	389
Operating lease liability	1,013	4,947
Issuance expense	-	982
Other	72	89
Total deferred tax assets	<u>19,764</u>	<u>33,897</u>
Deferred tax liabilities:		
Property and equipment, net	(250)	(289)
Deferred costs	(1,481)	(1,629)
Operating lease right-of-use asset	(984)	(4,212)
Total deferred tax liabilities	<u>(2,715)</u>	<u>(6,130)</u>
Total deferred tax assets, net	<u>\$ 17,049</u>	<u>\$ 27,767</u>
Less valuation allowance for deferred tax assets	<u>(15,390)</u>	<u>(26,421)</u>
Deferred tax assets	<u>\$ 1,659</u>	<u>\$ 1,346</u>

The Company's deferred tax assets are classified entirely in the consolidated balance sheet as non-current assets.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considered all available evidence, including past operating results, the most recent projections for taxable income, and prudent and feasible tax planning strategies. The Company reassess its valuation allowance periodically and if future evidence allows for a partial or full release of the valuation allowance, a tax benefit will be recorded accordingly.

As of December 31, 2019 and 2020, the Company had recorded a full valuation allowance of \$15,390 thousand and \$26,421 thousand, respectively, with regard to its deferred taxes, consisting primarily of tax loss carryforwards generated in Israel.

A summary of the Company's valuation allowance activity on deferred tax assets was as follows:

	December 31,		
	2018	2019	2020
<i>(U.S. \$ in thousands)</i>			
Beginning balance	\$ 9,511	\$ 8,762	\$ 15,390
Additions charged to income tax expense	-	6,628	11,031
Reductions credited to income tax expense	(749)	-	-
Ending balance	<u>\$ 8,762</u>	<u>\$ 15,390</u>	<u>\$ 26,421</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company believes that all future profits of its subsidiaries will be indefinitely reinvested or that there is no expectation to distribute any taxable dividends from these subsidiaries.

**b. Provision for Income Taxes**

Loss (Income) before taxes on income for the years ended December 31, 2018, 2019 and 2020 were as follows:

	December 31,		
	2018	2019	2020
	<i>(U.S. \$ in thousands)</i>		
Israeli	4,879	\$ 29,560	\$ 36,347
Non-Israeli	(1,900)	(2,452)	(2,536)
	<u>2,979</u>	<u>\$ 27,108</u>	<u>\$ 33,811</u>

The components of taxes on income for the years ended December 31, 2018, 2019 and 2020 were as follows:

	December 31,		
	2018	2019	2020
	<i>(U.S. \$ in thousands)</i>		
<b>Current</b>			
Israeli	105	\$ 164	\$ 336
Non-Israeli	1,328	1,817	946
	<u>1,433</u>	<u>1,981</u>	<u>1,282</u>
<b>Deferred</b>			
Israeli	(1)	-	-
Non-Israeli	(149)	(970)	313
	<u>(150)</u>	<u>(970)</u>	<u>313</u>
Total taxes on income	<u>1,283</u>	<u>\$ 1,011</u>	<u>\$ 1,595</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation of the theoretical tax benefit and actual taxes on income for the years ended December 31, 2018, 2019 and 2020 is set forth below:

	December 31,		
	2018	2019	2020
	<i>(U.S. \$ in thousands)</i>		
Loss before taxes on income	2,979	\$ 27,108	\$ 33,811
Statutory tax rate in Israel	23%	23%	23%
Theoretical tax benefit	685	6,235	7,777
Increase in income tax expense resulting from:			
Effect of different tax rates applicable in foreign jurisdictions	(399)	(157)	(128)
Operating losses and other temporary differences for which valuation allowance was provided	(708)	(4,972)	(5,784)
Permanent differences	(756)	(2,162)	(3,017)
Uncertain tax position	(91)	(158)	(336)
Other	(14)	203	(107)
Actual taxes on income	<u>(1,283)</u>	<u>\$ (1,011)</u>	<u>\$ (1,595)</u>

*Uncertain tax positions*

Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when the Company believes that certain positions might be challenged despite its belief that its tax return positions are fully supportable. The Company adjusts these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or changes in the tax law. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

	Year ended December 31,		
	2018	2019	2020
	<i>(U.S. \$ in thousands)</i>		
Balance at beginning of year	421	\$ 512	\$ 670
Additions for tax positions related to the current year	91	158	336
Balance at end of year	<u>512</u>	<u>\$ 670</u>	<u>\$ 1,006</u>

The Company is subject to income taxes in the U.S., Israel and certain other foreign jurisdictions. The Company files income tax returns in various jurisdictions with varying statutes of limitations. Tax returns of the U.S. subsidiary submitted in the United States through 2014 tax year are considered to be final following the completion of an Internal Revenue Service examination. Tax returns of the Israel entity submitted in Israel through the 2013 tax year are considered to be final following the completion of an Israeli Tax Authorities examination. The expiration of the statute of limitations related to the various other foreign and state income tax returns that the Company and its subsidiaries file vary by state and foreign jurisdiction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*c. Basis of taxation*

Company incorporated in the U.S. — tax rate of 21%.

Company incorporated in Germany — tax rate of 33%.

Company incorporated in UK — tax rate of 19%.

Company incorporated in France — tax rate of 33%.

***Tax rates in Israel***

Company incorporated in Israel — tax rate of 23%.

***Tax benefits in Israel***

Under Israel law, including Amendment No. 60 to the Israel law, the Company may be entitled to various tax benefits such as “approved enterprise” or “benefited enterprise” status, subject to meeting certain conditions, including generating taxable income. As of December 31, 2020, the Company does not anticipate taxable income in the foreseeable future.

The main potential tax benefits available are the following:

- 1) In respect of income derived from the benefited enterprises, the Company is entitled to tax exempt during a period of two years from the year in which the Company first earns taxable income (limited to twelve years from the commencement date).
- 2) In the event of distribution of a cash dividend from income which was tax exempt as above, the Company would have to pay 25% tax in respect of the amount distributed.
- 3) Entitlement to the above benefits is conditioned upon the Company’s fulfilling the conditions stipulated by the above law, regulations published thereunder and the certificate of approval for the specific investments in approved enterprises or benefited enterprises. In the event of failure to comply with these conditions, the benefits may be cancelled, and the Company may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences to the Israeli CPI and interest.

***Israel tax loss carryforwards***

Accumulated losses for tax purposes as of December 31, 2020 amounted to approximately \$76.3 million and were generated in Israel. These losses may be carried forward and offset against taxable income in the future for an indefinite period. A full valuation allowance was created against the Company’s deferred tax assets generated in Israel, consisting mostly of net operating loss carryovers. Management currently believes that it is more likely than not that the deferred taxes generated in Israel will not be realized in the foreseeable future.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12: FINANCIAL INCOME (LOSS), NET

	Year ended December 31,		
	2018	2019	2020
	<i>(U.S. \$ in thousands)</i>		
Hedging instrument gain (loss), net	\$ (337)	\$ 366	\$ 86
Bank charges	(89)	(153)	(175)
Exchange rate loss, net	(418)	(1,175)	(49)
Interest income (expense), net	(218)	878	347
Amortization of premium on marketable securities	-	-	(95)
Other, net	15	(1)	-
Total financial income (expenses), net	<u>\$ (1,047)</u>	<u>\$ (85)</u>	<u>\$ 114</u>

NOTE 13: ENTITY WIDE DISCLOSURES

ASC 280, "Segment Reporting," establishes standards for reporting information about operating segments. The Company manages its business based on one operating segment and derives revenues from licensing of software, sales of hardware, providing maintenance and technical support and sales of professional services.

The following is a summary of revenues within geographic areas:

	Year ended December 31,		
	2018	2019	2020
	<i>(U.S. \$ in thousands)</i>		
Geography:			
Americas:			
United States	47,860	\$ 55,991	\$ 53,334
Other	407	857	1,311
	<u>48,267</u>	<u>56,848</u>	<u>54,645</u>
Israel	1,161	1,654	1,493
EMEA (excluding Germany and Israel)	23,181	27,102	27,073
Germany	8,253	12,147	11,548
APAC	4,119	5,519	6,075
Total	<u>84,981</u>	<u>\$ 103,270</u>	<u>\$ 100,834</u>

Net sales are attributed to geographic areas based on the location of customer.

As of December 31, 2018, 2019 and 2020, each of the following distributors comprised more than 10% of the Company's revenue:

	December 31,		
	2018	2019	2020
Customer A	13%	15%	15%
Customer B	6%	9%	10%
Customer C	10%	8%	8%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Disaggregation of Revenue*

The Company generates revenue from the sale of software products, hardware products, maintenance and support, and professional services. All revenue recognized in the consolidated statement of operations is considered to be revenue from contracts with customers. The following table sets for the disaggregated revenue by revenue type and is consistent with how the Company evaluates its performance obligations:

	Year ended December 31,		
	2018	2019	2020
	<i>(U.S. \$ in thousands)</i>		
Revenues:			
Software products	\$ 39,300	\$ 44,618	\$ 35,898
Hardware products	3,254	2,747	2,792
Support and maintenance	37,155	46,019	50,794
Professional services	5,272	9,886	11,350
Total revenues	<u>\$ 84,981</u>	<u>\$ 103,270</u>	<u>\$ 100,834</u>

Property and equipment, net by geographical area were as follows as of December 31, 2018, 2019 and 2020:

	December 31,		
	2018	2019	2020
	<i>(U.S. \$ in thousands)</i>		
Americas (primarily the United States)	496	\$ 959	\$ 1,125
EMEA	81	123	108
Israel	1,986	3,095	3,269
	<u>2,563</u>	<u>\$ 4,177</u>	<u>\$ 4,502</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 14: COMMITMENTS AND CONTINGENT LIABILITIES

*Legal Proceedings*

The Company and certain of its directors and officers (the “Individual Defendants”) at the time of its initial public offering (“IPO”) were named as defendants in four putative shareholder class action lawsuits filed in the Supreme Court of the State of New York on (1) February 26, 2020, captioned *Matt Primozych v. Tufin Software Technologies Ltd., et al.*, Index No. 651287/2020 (Sup. Ct. N.Y. Cnty.) (“Primozych Action”), (2) May 28, 2020, captioned *Allen v. Tufin Software Technologies Ltd., et al.*, Index No. 652118/2020 (Sup. Ct. N.Y. Cnty.) (“Allen Action”), (3) June 15, 2020, captioned *Avi Shmuely v. Tufin Software Technologies Ltd., et al.*, Index No. 652475/2020 (Sup. Ct. N.Y. Cnty.) (“Shmuely Action”), and (4) July 1, 2020 captioned *Michael Roche v. Tufin Software Technologies Ltd., et al.*, Index No. 652833/2020 (Sup. Ct. N.Y. Cnty.) (“Roche Action”), and with the Primozych Action, Allen Action, and Shmuely Action, the “Tufin State Actions”). In addition to naming the Company and Individual Defendants as defendants, the Roche Action names the underwriters in the IPO as defendants (“IPO Underwriter Defendants”). On November 17, 2020 plaintiffs in the Primozych Action and Allen Action filed amended complaints.

In the Tufin State Actions, the plaintiffs, seeking to represent a class of all purchasers and acquirers of the Company’s ordinary shares issued in connection with the Company’s April IPO, allege that the (1) the defendants made material misstatements or failed to disclose material information in the IPO Offering Documents, thereby allegedly violating Section 11 of the Securities Act and (2) the Individual Defendants were “control persons” of the Company by virtue of their positions, and thereby are allegedly liable under Section 15 of the Securities Act. The Roche Action also asserts a claim under Section 12(a)(2) of the Securities Act alleging that defendants issued, caused to be issued, and/or signed the IPO Offering Documents in connection with issuance of stock to shareholders in the IPO. The plaintiffs have filed various motions to consolidate and appoint a lead plaintiff and lead counsel in the Tufin State Actions, and such motions have been fully briefed since August 4, 2020; however, as of February 6, 2021, an order on the motions had not yet been entered.

Two federal class actions were also filed in the Southern District of New York: (1) the matter captioned *Matthew Ellison v. Tufin Software Technologies Ltd. et al.*, Case No. 1:20-cv-05646 (S.D.N.Y.) was filed on July 21, 2020 and names the Company, the Individual Defendants, the IPO Underwriter Defendants, and certain underwriters in the secondary public offering (“SPO Underwriter Defendants”) as defendants (“Ellison Action”) and (2) the matter captioned *Michaelson v. Tufin Software Technologies Ltd. et al.*, Case No. 1: 20-cv-06290 (S.D.N.Y.) was filed on August 10, 2020 and names Tufin and the Individual Defendants as defendants (“Michaelson Action” and with the Ellison Action, the “Tufin Federal Actions”). The Tufin Federal Actions were brought on behalf of all persons or entities, who purchased stock in the Company’s April 2019 IPO and/or December 2019 secondary public offering (“SPO”), pursuant to and/or traceable to the alleged misleading IPO Offering Documents or SPO Offering Documents, and assert violations of Sections 11 and 12(a)(2) (against all defendants) and Section 15 (against Individual Defendants) of the Securities Act. On October 19, 2020, the New York federal court entered an order consolidating the Tufin Federal Actions under Master File No. 1:20-cv-05646, appointing Mark Henry as lead plaintiff, and approving Henry’s selection of lead counsel. On February 4, 2021, lead plaintiff filed a Consolidated Amended Complaint, which asserts claims for violations of Sections 11 and 15 of the Securities Act of 1933, based on alleged false or misleading statements or omissions in the Registration Statement issued in connection with Tufin’s April IPO. The Consolidated Amended Complaint names Tufin and the Individual Defendants as Defendants. Defendants have 60 days from the filing of the Consolidated Amended Complaint to answer or otherwise respond to the Consolidated Amended Complaint.

The Company is also subject to certain indemnification obligations with respect to the Individual Defendants, IPO Underwriter Defendants, and the SPO Underwriter Defendants, in connection with the Tufin State Actions and Tufin Federal Actions.

Based on information currently available and the current stage of the litigation, the Company is unable to reasonably estimate a possible loss or range of possible losses, if any, with regard to the Tufin State Actions and Tufin Federal Actions; therefore, no estimated liability has been recorded in the Company’s consolidated balance sheets as of December 31, 2020. The Company will continue to evaluate information as it becomes known and will record an estimate for losses at the time or times if and when it is probable that a loss will be incurred and the amount of the loss is reasonably estimable.

## ITEM 19. EXHIBITS

The following documents are filed as part of this annual report:

- [1.1\\*](#) [Amended Articles of Association of the Registrant](#)
- [2.5\\*](#) [Description of Securities registered pursuant to Section 12 of the Securities and Exchange Act of 1934](#)
- [4.1](#) [Amended and Restated Investors' Rights Agreement, dated March 6, 2019, by and among the Registrant and the other parties thereto \(incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.2](#) [Form of Letter of Indemnification \(incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.3](#) [Office Lease Agreement, dated July 2, 2018, by and between the Registrant and Amot Investment Ltd. and Bayside Land Corporation Ltd. and amendments thereto \(incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.4~~o~~](#) [Office Lease Agreement, dated September 18, 2007, by and between the Registrant and Mazal and Bracha \(1970\) Ltd. and amendments thereto \(incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.5](#) [Office Lease Agreement, dated August 22, 2017, by and between Tufin Software North America, Inc. and NS Two Oliver LLC \(incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.6](#) [Office Lease Agreement, dated August 28, 2019, by and between Tufin Software North America, Inc. and MP Franklin Burnham Co LLC \(incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-235325\)\)](#)
- [4.7](#) [Commencement Agreement, dated December 18, 2017, by and between Tufin Software North America, Inc. and NS Two Oliver LLC \(incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.8](#) [2007 Israeli Share Option Plan \(incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.9](#) [Global Addendum \(Non-Israeli and Non-U.S. Taxpayers\) to the 2007 Israeli Share Option Plan \(incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.10](#) [2008 U.S. Stock Plan \(incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.11](#) [2018 Equity-Based Incentive Plan \(incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.12](#) [2019 Equity-Based Incentive Plan \(incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)
- [4.13](#) [Amended and Restated Loan and Security Agreement, dated September 27, 2018, by and among the Registrant, Silicon Valley Bank, and Tufin Software North America, Inc. \(incorporated by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form F-1, as amended \(Registration No. 333-230109\)\)](#)

<a href="#"><u>8.1*</u></a>	<a href="#"><u>List of subsidiaries of the Registrant</u></a>
<a href="#"><u>10.1*</u></a>	<a href="#"><u>Compensation Policy (as amended)</u></a>
<a href="#"><u>12.1*</u></a>	<a href="#"><u>Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Executive Officer</u></a>
<a href="#"><u>12.2*</u></a>	<a href="#"><u>Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Financial Officer</u></a>
<a href="#"><u>13.1**</u></a>	<a href="#"><u>Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer</u></a>
<a href="#"><u>13.2**</u></a>	<a href="#"><u>Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer</u></a>
<a href="#"><u>15.1*</u></a>	<a href="#"><u>Consent of Kesselman &amp; Kesselman, a member firm of PricewaterhouseCoopers International Limited</u></a>
101.INS*	Inline XBRL Instance 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 (embedded within the Inline XBRL document)

\* Filed herewith.

\*\* Furnished herewith.

∞ English summary of original Hebrew document.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**TUFIN SOFTWARE TECHNOLOGIES LTD.**

By: /s/ Reuven Kitov

Name: Reuven Kitov

Title: Chief Executive Officer and Chairman of the Board

By: /s/ Jack Wakileh

Name: Jack Wakileh

Title: Chief Financial Officer

Date: March 2, 2021

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**TUFIN SOFTWARE TECHNOLOGIES LTD.  
AMENDED AND RESTATED ARTICLES OF ASSOCIATION**

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**AMENDED AND RESTATED ARTICLES OF ASSOCIATION**  
**of**  
**TUFIN SOFTWARE TECHNOLOGIES LTD.**  
**INTERPRETATION**

1. In these Articles the following terms shall bear the meanings set opposite to them, unless the context otherwise requires:

<b>TERMS</b>	<b>MEANINGS</b>
Articles	These Amended and Restated Articles of Association as may be amended from time to time.
Auditor ( <i>Roeh Cheshbon Mevaker</i> )	As defined under the Law.
Board	The Board of Directors of the Company.
CEO	Chief Executive Officer, also referred to under the Law as the General Manager.
Class Meeting	A meeting of the holders of a class of shares.
Chairman	Chairman of the Board.
Company	Tufin Software Technologies Ltd.
Companies Regulations	All regulations promulgated from time to time under the Companies Law.
Distribution	As defined under the Law.
External Director	As defined under the Law.
Internal Auditor	An internal auditor appointed by the Company in accordance with Section 146(a) of the Companies Law.
The Law or the Companies Law	The Israeli Companies Law, 5759 – 1999 and the Companies Regulations, or any other law and regulations which may come in their stead, in each case, as amended from time to time.
NIS	New Israeli Shekel, the lawfully denominated currency of the State of Israel.
The Office	The registered office of the Company from time to time.
Office Holder	As defined under the Law.
Ordinary Share(s)	The Company's Ordinary Shares, NIS 0.015 par value each.
Person	A company, corporate body, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof, or an individual.
Register	The Company's shareholders register, maintained in accordance with the Companies Law.
Simple Majority	A majority of more than fifty percent (50%) of the votes cast by those shareholders voting in person or by proxy (including by voting deed), not taking into consideration abstaining votes.
Special Majority	A majority of sixty six and two thirds percent (66 2/3%) or more of the votes cast by those shareholders voting in person or by proxy (including by voting deed), not taking into consideration abstaining votes.
The Statutes	The Law and, to the extent applicable to the Company, the Israeli Companies Ordinance (New Version) 1983, the Securities Law, 5728 – 1968 (the "Securities Law") and all applicable laws and regulations applicable in any relevant jurisdiction (including without limitation U.S. federal laws and regulations), and rules of any stock market in which the Company's shares are registered for trading as shall be in force from time to time.

Subject to the provisions of this Article 1 and unless the context necessitates another meaning, terms and expressions in these Articles which have been defined in the Statutes shall have the meanings ascribed to them therein.

2. Words importing the singular shall include the plural, and *vice versa*. Any pronoun shall include the corresponding masculine, feminine and neuter forms; and words importing persons shall include corporate bodies.  
Any provision or part thereof of these Articles, prohibited by applicable law, shall be ineffective, without invalidating any other part of these Articles.

#### **NAME OF THE COMPANY**

3. The name of the Company is Tufin Software Technologies Ltd. (and in Hebrew: תופין טכנולוגיות תוכנה בע"מ).

#### **OBJECTIVES**

4. The objectives of the Company shall be to engage in any legal occupation or business and to conduct its business according to business considerations and for the purpose of making profits.

#### **PUBLIC COMPANY**

5. The Company is a public company as such term is defined under the Companies Law.



## **LIMITED LIABILITY**

6. The liability of each shareholder for the Company's obligations is limited to the payment of the nominal value of the shares held by such shareholder, subject to the provisions of the Companies Law.

## **CAPITAL, SHARES AND RIGHTS**

7. The registered share capital of the Company consists of one hundred fifty million (150,000,000) Ordinary Shares, par value NIS 0.015 per share.
8. All issued and outstanding shares of the Company of the same class are of equal rights between them for all intents and purposes concerning the rights set forth in these Articles.
9. Each issued Ordinary Share entitles its holder to the rights as described below:
- 9.1. The equal right to participate in and vote at the Company's general meetings, whether ordinary meetings or special meetings, and each of the shares in the Company shall entitle the holder thereof, who is present at the meeting and participating in the vote, whether in person, or by proxy, to one vote.
  - 9.2. The equal right to participate in any Distribution or distribution of bonus shares.
  - 9.3. The equal right to participate in the distribution of assets available for distribution in the event of liquidation of the Company.
- 10.
- 10.1. If two or more persons are registered as joint holders of any shares, any one of such persons may give effectual receipts for any dividend or other monies in respect of such share and his or her confirmation will bind all holders of such share.
  - 10.2. Any payment for a share shall be initially credited against the par value of said share and any excess amount shall be credited as a premium for said share, unless determined otherwise in the conditions of the allocation.

## **SHARE CERTIFICATES**

11. A shareholder who is registered in the Register is entitled to receive from the Company, without payment and at such shareholder's request, within a period of three months after the allocation or registration of the transfer, one share certificate with respect to all the shares registered in his name, which shall specify the aggregate number of the shares held by such shareholder. In the event of a jointly held share, the Company shall issue one share certificate for all the joint holders of the share, and the delivery of such certificate to one of the joint holders shall be deemed to be delivery to all of them. Every certificate shall bear the Company's stamp or seal or a facsimile copy thereof and be signed by an Office Holder of the Company, a director of the Company, the Company's secretary or by any other person appointed by the Board for such purpose.

12. The Company may issue a new certificate *in lieu of* a certificate that was issued and was lost, defaced, or destroyed, on the basis of such proof and guarantees as the Company may require, and after payment of an amount that shall be prescribed by the Company, and the Company may also replace existing certificates with new certificates, free of charge, subject to such conditions as the Company shall stipulate.

#### **REGISTERED HOLDER**

13. Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in such share on the part of any other person.
14. To the extent required by the Law a trustee must inform the Company of the fact that such trustee is holding shares of the Company in trust for another person at such time as may be required by the Law. The Company shall register that fact in the Register in respect of such shares. The trustee shall be deemed to be the sole holder of said shares.

#### **TRANSFER OF SHARES**

15. Subject to the Statutes, and subject to any applicable agreements or undertakings of any specific shareholder, the shares shall be freely transferable.
16. A transfer of registered shares shall be made in writing or any other manner, in a form specified by the Board or the transfer agent appointed by the Company, and such transfer form should be signed by both the transferee and the transferor and delivered to the Office or to such transfer agent, together with the certificates of the shares due to be transferred, if such certificates have been issued. The Board may approve other methods of recognizing the transfer of shares in order to facilitate the trading of the Company's shares on the New York Stock Exchange, Nasdaq or on any other applicable stock exchange. The transferee shall be deemed to be the shareholder with respect to the transferred shares only from the date of registration of his name in the Register.
17. Notwithstanding anything to the contrary herein, shares registered in the name of The Depository Trust Company or its nominee shall be transferrable in accordance with the policies and procedures of The Depository Trust Company.
18. The Board may close the Register and suspend the registration of transfers for such period of time as the Board shall deem fit, provided that the period of closure of any such book shall not exceed 30 days each year. The Company shall notify the shareholders of such decision.

#### **TRANSMISSION OF SHARES**

19. In the case of the death, liquidation, bankruptcy, dissolution, winding-up or a similar occurrence of a shareholder, the legal successors, receivers or liquidators (as the case may be) of such shareholder shall be the only persons recognized by the Company as having any title to such shares, but nothing herein contained shall release the estate of the predecessor from any liability in respect of such shares.
20. The legal successors may, upon producing such evidence of title as the Board shall require, be registered themselves as holders of the shares, or subject to the provisions as to transfers herein contained, transfer the same to some other person.

## CALLS ON SHARES

21. The Board may, from time to time, make such calls as it may deem appropriate upon shareholders with respect to any sum unpaid in respect of shares held by such shareholders which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated by the Board (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.
22. Notice of any call shall be given in writing to the applicable shareholder(s) not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom and the place where such payment shall be made; provided, however, that before the time for any such payment, the Board may, by notice in writing to such shareholder(s), revoke such call in whole or in part, extend such time, or alter such designated person and/or place. In the event of a call payable in installments, only one notice thereof need be given.
23. If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board and of which due notice had been given, and all the provisions herein contained with respect to calls shall apply to each such amount.
24. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.
25. Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debtor rate charged by leading commercial banks in Israel), and at such time(s) as the Board may prescribe.
26. A shareholder shall not be entitled to his rights as shareholder, including the right to dividends, unless such shareholder has fully paid all the notices of call delivered to him, or which according to these Articles are deemed to have been delivered to him, together with interest, linkage and expenses, if any, unless otherwise determined by the Board. Upon the allotment of shares, the Board may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

## ALTERATIONS OF THE REGISTERED SHARE CAPITAL

27. (a) Subject to the Statutes, a general meeting of shareholders may from time to time resolve to:
  - (1) alter or add classes of shares that shall constitute the Company's registered capital, including shares with preference rights, deferred rights, conversion rights or any other special rights or limitations;

- (2) increase the Company's registered share capital by creating new shares either of an existing class or of a new class;
  - (3) consolidate and/or split all or any of its share capital into shares of larger or smaller par value than the existing shares;
  - (4) cancel any registered shares not yet allocated, provided that the Company has made no commitment to allocate such shares; and
  - (5) reduce the Company's share capital and any reserved fund for redemption of capital.
- (b) In executing any resolution adopted according to Article 27(a) above, the Board may, at its discretion, resolve any related issues.
- (c) If as a result of a consolidation or split of shares authorized under these Articles, fractions of a share will stand to the credit of any shareholder, the Board is authorized at its discretion, to act as follows:
- (1) Determine that fractions of shares that do not entitle their owners to a whole share, will be sold by the Company and that the consideration for the sale be paid to the beneficiaries, on terms the Board may determine;
  - (2) Allot to every shareholder, who holds a fraction of a share resulting from a consolidation and/or split, shares of the class that existed prior to the consolidation and/or split, in a quantity that, when consolidated with the fraction, will constitute a whole share, and such allotment will be considered valid immediately prior to the consolidation or split;
  - (3) Determine the manner for paying the amounts to be paid for shares allotted in accordance with Article 27(c)(2) above, including on account of bonus shares; and/or
  - (4) Determine that the owners of fractions of shares will not be entitled to receive a whole Share in respect of a share fraction or that they may receive a whole share with a different par value than that of the fraction of a share.
28. Except as otherwise provided by or pursuant to these Articles or by the conditions of issue, any new share capital shall be considered as part of the original share capital, and shall be subject to the same provisions of these Articles with reference to payment of calls, lien, transfer, transmission, forfeiture and otherwise, which applies to the original share capital.

## **MODIFICATION OF CLASS RIGHTS**

29. If at any time the share capital is divided into different classes of shares, any change to the rights and privileges of the holders of any such class of shares shall require the approval of a Class Meeting of such class of shares by a Simple Majority (unless otherwise provided by the Statutes or by the terms of issue of the shares of that class), in addition to the Simple Majority of all classes of shares voting together as a single class at a shareholder meeting.
30. The rights and privileges of the holders of any class of shares shall not be deemed to have been altered by creating or issuing shares of any class, including a new class (unless otherwise provided by the terms of issue of the shares of that class).

## **BORROWING POWERS**

31. The Company may, by resolution of the Board, from time to time, raise or borrow or secure the payment of any sum or sums of money for the purposes of the Company. The Company, by resolution of the Board, may also raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as it deems fit, and in particular by the issue of debentures or debenture stock of the Company charged upon all or any part of the property of the Company (both present and future) including its unissued and/or its uncalled capital for the time being. Issuance of any series of debentures shall require Board approval.

## **BUSINESS COMBINATIONS WITH INTERESTED SHAREHOLDERS**

- 32.
- (a) Notwithstanding any other provision of these Articles and subject to the provisions of applicable law, the Company shall not engage in any Business Combination (as defined below) with any Interested Shareholder (as defined below) for a period of three (3) years following the time that such shareholder became an Interested Shareholder, unless:
- (1) prior to the time that such shareholder became an Interested Shareholder, the Board of Directors approved either the Business Combination or the transaction which resulted in the shareholder becoming an Interested Shareholder, or
  - (2) upon consummation of the transaction which resulted in the shareholder becoming an Interested Shareholder, the Interested Shareholder owned at least 85% of the Voting Shares (as defined below) of the Company outstanding at the time the transaction commenced excluding for purposes of determining the Voting Shares outstanding (but not the outstanding Voting Shares owned by the Interested Shareholder) those shares owned by persons who are directors and also officers, or
  - (3) at the time that such shareholder became an Interested Shareholder, or subsequent to such time, the Business Combination is approved by the Board of Directors and authorized at a general meeting of shareholders by the affirmative vote of at least 66 2/3% of the Voting Shares outstanding that are not owned by the Interested Shareholder.
- (b) The restrictions set forth in this Article shall not apply if shareholder becomes an Interested Shareholder inadvertently and (i) as soon as practicable divests itself of ownership of sufficient shares so that the shareholders ceases to be an interested shareholder; and (ii) would not, at any time within the 3-year period immediately prior to a Business Combination between the Company and such shareholder, have been an Interested Shareholder but for the inadvertent acquisition of ownership;

(c) As used in this Article only, the term:

(i) "Affiliate" means a Person (as defined below) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with another Person.

(ii) "Associate" when used to indicate a relationship with any Person, means (A) any corporation, partnership, unincorporated association or other entity of which such Person is a director, officer or partner or is, directly or indirectly, the owner of twenty percent (20%) or more of any class of Voting Shares, (B) any trust or other estate in which such Person has at least a twenty percent (20%) beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity, and (C) any relative or spouse of such Person, or any relative of such spouse, who has the same residence as such Person.

(iii) "Business Combination" when used in reference to the Company and any Interested Shareholder of the Company, means:

A. any merger or consolidation of the Company or any direct or indirect majority owned subsidiary of the Company with (1) the Interested Shareholder, or (2) with any other corporation, partnership, unincorporated association or other entity if the merger or consolidation is caused by the Interested Shareholder and as a result of such merger or consolidation subsection (a) of this Article is not applicable to the surviving entity;

B. any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), except proportionately as a shareholder of such Company, to or with the Interested Shareholder, whether as part of a dissolution or otherwise, of assets of the Company or of any direct or indirect majority owned subsidiary of the Company, which assets have an aggregate market value equal to ten percent (10%) or more of either the aggregate market value of all of the assets of the Company determined on a consolidated basis or the aggregate market value of all of the outstanding shares of the Company;

C. any transaction which results in the issuance or transfer by the Company or by any direct or indirect majority-owned subsidiary of the Company of any shares of the Company or of such subsidiary to the Interested Shareholder, except (1) pursuant to the exercise, exchange or conversion of securities exercisable for or convertible into shares of the Company or any such subsidiary, which securities were outstanding prior to the time that the Interested Shareholder became such; (2) pursuant to Section 337(a) or Section 337(a1) of the Companies Law, (3) pursuant to a dividend or distribution paid or made, or the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into shares of the Company or any such subsidiary, which security is distributed pro-rata to all holders of shares of the Company subsequent to the time the Interested Shareholder became such; (4) pursuant to an exchange offer by the Company to purchase shares made on the same terms to all holders of said shares; or (5) any issuance or transfer of shares by the Company; provided, that in no case under (2) through (5) above shall there be an increase in the Interested Shareholder's proportionate share of the shares or of the voting shares of the Company;

D. any transaction involving the Company or any direct or indirect majority-owned subsidiary of the Company which has the effect directly or indirectly of increasing the proportionate share of the shares of any class or series or securities convertible into the shares of any class or series of the Company or of any such subsidiary which is owned by the Interested Shareholder except as a result of immaterial changes due to fractional share adjustments or as a result of any purchase or redemption of any shares not caused, directly or indirectly, by the Interested Shareholder; or

E. any receipt by the Interested Shareholder of the benefit, directly or indirectly (except proportionately as a shareholder of such company), of any loans, advances, guarantees, pledges or any other financial benefits (other than those expressly permitted in subparagraphs A. through D. above) provided by or through the Company or any direct or indirect majority owned subsidiary.

(iv) "Control" including the term "Controlling", "Controlled by" and "under common control with" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of Voting Shares, by contract or otherwise. A Person who is the owner of twenty percent (20%) or more of the outstanding Voting Shares of any corporation, partnership, unincorporated association or other entity shall be presumed to have control of such entity. Notwithstanding the foregoing, a presumption of control shall not apply where such Person holds Voting Shares in good faith and not for the purpose of circumventing this Article as an agent, bank, broker, nominee, custodian or trustee for one or more owners who do not individually or as a group have control of such entity.

(v) "Interested Shareholder" means any person (other than the Company and any direct or indirect majority-owned subsidiary of the Company) that (A) is the Owner of fifteen percent (15%) or more of the outstanding Voting Shares of the Company, or (B) is an Affiliate or Associate of the Company and was the Owner of fifteen percent (15%) or more of the outstanding Voting Shares of the Company at any time within the 3-year period immediately prior to the date on which it is sought to be determined whether such person is an Interested Shareholder, and the Affiliates and Associates of such person. Notwithstanding the foregoing, the term Interested Shareholder shall not include any Person whose ownership of outstanding Voting Shares in excess of the fifteen percent (15%) limitation set forth herein is the result of action taken solely by the Company; provided that such Person shall be an Interested Shareholder if thereafter such person acquires, without prior approval of the Board, additional Voting Shares of the Company, except as a result of further corporate action not caused, directly or indirectly, by such Person. For the purpose of determining whether a person is an Interested Shareholder, the Voting Shares of the Company deemed to be outstanding shall include shares deemed to be owned by the person through application of paragraph (ix) of this subsection but shall not include any other unissued shares of the Company which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

- (vi) "Person" means any individual, corporation, partnership, unincorporated association or other entity.
- (vii) "Share" means with respect to any corporation shares of its capital and with respect to any other entity any equity interest.
- (viii) "Voting Shares" means with respect to any corporation Shares of any class or series entitled to vote generally in the election of directors and, with respect to any entity that is not a corporation, any equity interest entitled to vote generally in the election of the governing body of such entity.
- (ix) "Owner" including the terms "own" and "owned", when used with respect to any Share, means a Person that individually or with or through any of its Affiliates or Associates:
- A. beneficially owns such share, directly or indirectly; or
- B. has (1) the right to acquire such share (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, warrants or options, or otherwise; provided however, that a Person shall not be deemed the owner of share tendered pursuant to a tender or exchange; or (2) the right to vote such share pursuant to any agreement, arrangement or understanding; provided however, that a person shall not be deemed the owner of any share because of such person's right to vote such share if the agreement, arrangement, or understanding to vote such share arises solely from a recoverable proxy or consent given in response to a proxy or consent solicitation made to ten (10) or more Persons: or
- C. has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent as described in item (2) of clause B of this paragraph) or disposing of such Share with any other Person that beneficially owns or whose Affiliates or Associates beneficially own, directly or indirectly, such share.
- (d) Any change to this Article 32 shall only be carried out by a resolution of the shareholders of the Company, adopted by the holders of securities representing at least 85% of the Voting Shares of the Company then outstanding.

#### **GENERAL MEETINGS**

33. Annual general meetings shall be held at least once a calendar year, at such place and time as determined by the Board, but not later than fifteen (15) months after the last annual general meeting. Such general meetings shall be called "Annual Meetings" and all other general meetings of the Company shall be called "Special Meetings". The Annual Meeting shall review the Company's financial statements and shall transact any other business required pursuant to these Articles or the Law, and any other matter as shall be determined by the Board.
34. The Board may convene a Special Meeting by its resolution, and is required to convene a Special Meeting should it receive a request, in writing, from a person or persons entitled, under the Companies Law, to demand such meeting. Any request for convening a meeting must specify the purposes for which the meeting is to be called, shall be signed by the persons requesting the meeting, and shall be delivered to the Company's registered offices.



35. In addition, subject to the Law, these Articles (including this Article 35) and any applicable law and stock exchange rules and regulations, the Board may accept a request of a shareholder holding not less than 1% of the voting rights at the general meeting (the "**Proposing Shareholder**") to include a subject in the agenda of a general meeting ("**Proposal Request**"), provided that such subject is a proper subject for action by shareholders under the Law and these Articles and only if the request also sets forth: (a) the name, address, telephone number, fax number and email address of the Proposing Shareholder and, if an entity, the name(s) of the person(s) that controls or manages such entity; (b) the number of Shares held by the Proposing Shareholder(s), directly or indirectly (and, if any of such Shares are held indirectly, an explanation of how they are held and by whom), which shall be in such number no less than as is required to qualify as a Proposing Shareholder, accompanied by evidence satisfactory to the Company of the record holding of such Shares by the Proposing Shareholder(s) as of the date of the Proposal Request, and a representation that the Proposing Shareholder(s) intends to appear in person or by proxy at the meeting; (c) the matter requested to be included on the agenda of a general meeting, all information related to such matter, the reason that such matter is proposed to be brought before the general meeting, the complete text of the resolution that the Proposing Shareholder proposes to be voted upon at the general meeting and, if the Proposing Shareholder wishes to have a position statement in support of the proposal request, a copy of such position statement that complies with the requirement of any applicable law (if any), (d) a description of all arrangements or understandings between the shareholder and any other Person or Persons (naming such Person or Persons) in connection with the subject which is requested to be included in the agenda and a declaration signed by all Proposing Shareholder(s) of whether any of them has a personal interest in the matter and, if so, a description in reasonable detail of such personal interest; (e) a description of all Derivative Transactions (as defined below) by each Proposing Shareholder(s) during the previous twelve (12) month period, including the date of the transactions and the class, series and number of securities involved in, and the material economic terms of, such Derivative Transactions; and (f) a declaration that all the information that is required under the Law and any other applicable law and stock exchange rules and regulations to be provided to the Company in connection with such subject, if any, has been provided. Furthermore, the Board, may, in its discretion to the extent it deems necessary, request that the shareholders making the request provide additional information necessary so as to include a subject in the agenda of a general meeting, as the Board may reasonably require.

In order for the Board of Directors to consider a Proposal Request and whether to include the matter stated therein in the agenda of a General Meeting, notice of the Proposal Request must be timely delivered in accordance with applicable laws. The Proposal Request must be in writing, signed by all of the Proposing Shareholder(s) making such request, delivered, either in person or by certified mail, postage prepaid, and received by the Company's secretary (or, in the absence thereof, by the CEO). The announcement of an adjournment or postponement of a General Meeting shall not commence a new time period (or extend any time period) for the delivery of a Proposal Request as described above.

A “Derivative Transaction” means any agreement, arrangement, interest or understanding entered into by, or on behalf or for the benefit of, any Proposing Shareholder or any of its affiliates or associates, whether of record or beneficial: (1) the value of which is derived in whole or in part from the value of any class or series of shares or other securities of the Company, (2) which otherwise provides any direct or indirect opportunity to gain or share in any gain derived from a change in the value of securities of the Company, (3) the effect or intent of which is to mitigate loss, manage risk or benefit of security value or price changes, or (4) which provides the right to vote or increase or decrease the voting power of, such Proposing Shareholder, or any of its affiliates or associates, with respect to any shares or other securities of the Company, which agreement, arrangement, interest or understanding may include, without limitation, any option, warrant, debt position, note, bond, convertible security, swap, share appreciation right, short position, profit interest, hedge, right to dividends, voting agreement, performance-related fee or arrangement to borrow or lend shares (whether or not subject to payment, settlement, exercise or conversion in any such class or series), and any proportionate interest of such Proposing Shareholder in the securities of the Company held by any general or limited partnership, or any limited liability company, of which such Proposing Shareholder is, directly or indirectly, a general partner or managing member.

The information required pursuant to this Article shall be updated as of (i) the record date of the general meeting, (ii) five days before the general meeting, and (iii) as of the general meeting, and any adjournment or postponement thereof.

36. Subject to applicable law, the Board shall determine the agenda of any general meeting.

37. An amendment to Articles 35, 36 or this Article 37 shall require a Special Majority.

#### **Notice of General Meetings**

38. Unless otherwise required by the Law and these Articles, the Company is not required to give notice under Section 69 of the Companies Law. A notice of general meeting shall be published by the Company on the website of (i) the United States Securities and Exchange Commission, and (ii) the Company, as a Current Report on Form 6-K or Form 8-K (or such other form prescribed by the Statutes), at least 21 days prior to the general meeting (or earlier if so required under the Statutes) and, if so published, shall be deemed to have been duly given on the date of such publication to any shareholder.

#### **PROCEEDINGS AT GENERAL MEETINGS**

##### **Quorum**

39. No business shall be transacted at any general meeting of the Company unless a quorum of shareholders is present at the opening of the general meeting.

Except as provided in the following Article with regard to an adjourned general meeting, the quorum for any general meeting shall be the presence of at least two shareholders in person or by proxy (including by voting deed) holding 1/3 (one third) or more of the voting rights in the Company. For this purpose, abstaining shareholders shall be deemed present at the general meeting.

40. If within half an hour from the time appointed for the holding of a general meeting a quorum is not present, the general meeting shall stand adjourned to the same day in the following week at the same time and place or to such other day, time and place as the Board may indicate in a notice to the shareholders. At such adjourned general meeting any number of shareholders shall constitute a quorum for the business for which the original general meeting was called.

#### **Chairman of the General Meeting**

41. The Chairman shall preside as the chairman at every general meeting, but if there shall be no such Chairman or if at any meeting the Chairman shall not be present within fifteen (15) minutes after the time appointed for holding the same, or shall be unwilling to act as chairman, then the Board members present at the meeting shall choose one of the Board members as chairman of the meeting and if they shall not do so then the shareholders present (by person or by proxy) shall choose a Board member, or if no Board member be present or if all the Board members present decline to take the chair, they shall choose any other person present to be chairman of the meeting.
42. The chairman of the general meeting may, with the consent of a general meeting at which a quorum is present, and shall if so directed by the general meeting, adjourn any meeting, discussion or the resolution with respect to a matter that is on the agenda, from time to time and from place to place as the meeting shall determine. Except as may be required by the Law, no shareholder shall be entitled to any notice of an adjournment or of the business to be transacted at an adjourned meeting. No business shall be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.
43. A vote in respect of the election of the chairman of the meeting or regarding a resolution to adjourn the meeting shall be carried out immediately. All other matters shall be voted upon during the meeting at such time and order as decided by the chairman of the general meeting.

#### **VOTE OF SHAREHOLDERS**

44. All resolutions proposed at any general meeting will require a Simple Majority, unless otherwise expressly required by the Statutes or these Articles. Except as otherwise expressly required by the Statutes or these Articles, alteration or amendment of these Articles shall require a Simple Majority.
45. A declaration by the chairman of the meeting that a resolution has been carried, or has been carried unanimously or by a particular majority, or rejected, or not carried by a particular majority and an entry to that effect in the minutes of the meeting shall be *prima facie* evidence thereof.
46. The chairman of the meeting will not have a second and/or a casting vote. If the vote is tied with regard to a certain proposed resolution such proposal shall be deemed rejected.
47. If two or more persons are jointly entitled to a share, the vote of the senior one who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other registered holders of the share, and for this purpose seniority shall be determined by the order in which the names stand in the Register.

48. A proxyholder need not be a shareholder of the Company.
49. The instrument appointing a proxy shall be in writing signed by the appointer or of his attorney-in-fact duly authorized in writing. A corporate entity shall vote by a representative duly appointed in writing by such entity. Any instrument appointing a proxy or a representative of a corporate entity (whether for a specified meeting or otherwise) shall be in a form satisfactory to the Company. Such instrument shall be duly signed by the appointer or his duly authorized attorney or, if such appointer is a company or other corporate body, under its common seal, stamp or printed name or the hand of its duly authorized agent(s) or attorney(s).
50. Unless otherwise determined by the Board, the instrument of appointment must be submitted to the Office no later than 48 hours prior to the general meeting to be attended by such proxy or representative. Notwithstanding the above, the chairman of the meeting shall have the right to waive the time requirement provided above with respect to all instruments of appointment and to accept any and all instruments of appointment until the beginning of a general meeting.
51. A proxy may be appointed in respect of only some of the shares held by a shareholder, and a shareholder may appoint more than one proxy, each empowered to vote by virtue of a portion of the shares.
52. A shareholder being of unsound mind or pronounced to be unfit to vote by a competent court of law may vote through a legally appointed guardian or any other representative appointed by a court of law to vote on behalf of such shareholder.
53. A shareholder entitled to vote may signify in writing his approval of, or dissent from, or may abstain from any resolution included in a proxy instrument furnished by the Company. A proxy instrument may include resolutions pertaining to such issues which are permitted to be included in a proxy instrument according to the Statutes, and such other issues which the Board may decide, in a certain instance or in general, to allow voting through a proxy. A shareholder voting or abstaining through a proxy instrument shall be taken into account in determining the presence of a quorum as if such shareholder is present at the meeting.
54. The chairman of the general meeting shall be responsible for recording the minutes of the general meeting and any resolution adopted.
55. The provisions of these Articles relating to general meetings shall, mutatis mutandis, apply to Class Meetings.

## **DIRECTORS**

### **Powers, Number of Directors, Composition & Election**

56. The Board shall have and execute all powers and/or responsibilities allocated to the Board by the Statutes and these Articles, including, without limitation, (i) the powers granted to the Board pursuant to Section 92 of the Companies Law and (ii) setting the Company's policies and supervision over the execution of the powers and responsibilities of the CEO. The Board may execute any power of the Company that is not specifically allocated by the Statutes or by these Articles to another organ of the Company.

57. The number of directors on the Board shall be no less than six (6) but no more than ten (10), including any External Directors required to be appointed by the Companies Law (if required) and including the Founder Director permitted to be appointed pursuant to Article 65 (unless the Appointment Right pursuant to such Article is suspended). A reduction of the maximum number of directors on the Board under this Article 57, shall not affect the term in office of serving directors determined prior to such reduction.
58. The directors, excluding the External Directors and excluding the Founder Director appointed pursuant to Article 65, shall be classified, with respect to the term for which they each severally hold office, into three classes, as nearly equal in number as practicable, hereby designated as Class I, Class II and Class III. The Board may assign members of the Board already in office to such classes at the time such classification becomes effective.
- 58.1. The term of office of the initial Class I directors shall expire at the first Annual Meeting to be held in 2020 and when their successors are elected and qualified,
- 58.2. The term of office of the initial Class II directors shall expire at the first Annual Meeting following the Annual Meeting referred to in Article 58.1 above and when their successors are elected and qualified, and
- 58.3. The term of office of the initial Class III directors shall expire at the first Annual Meeting following the Annual Meeting referred to in Article 58.2 above and when their successors are elected and qualified.
59. At each Annual Meeting, commencing with the Annual Meeting to be held in 2020, each of the successors elected to replace the directors of a Class whose term shall have expired at such Annual Meeting shall be elected to hold office until the third Annual Meeting next succeeding his or her election and until his or her respective successor shall have been elected and qualified. Notwithstanding anything to the contrary, each director shall serve until his or her successor is elected and qualified or until such earlier time as such director's office is vacated. A director whose term shall expire at an Annual Meeting may be re-elected at such Annual Meeting.
60. The Board may at any time and from time to time appoint any person as a director to fill a vacancy (whether such vacancy is due to a director no longer serving or due to the number of directors serving being less than the maximum number stated in Article 57 above). In the event of one or more such vacancies in the Board, the continuing directors may continue to act in every matter; provided, however, that if their number is less than the minimum number provided for pursuant to Article 57 above, they may only act in an emergency or to fill the office of a director which has become vacant up to a number equal to the minimum number provided for pursuant to Article 57 above. The office of a director that was appointed by the Board to fill any vacancy shall only be for the remaining period of time during which the director whose service has ended was filled would have held office, or in case of a vacancy due to the number of directors serving being less than the maximum number stated in Article 57 above, the Board shall determine at the time of appointment the class pursuant to Article 58 above, to which the additional director shall be assigned. Other than as provided in this Article 60, directors may be elected only at Annual Meetings.

61. Prior to every General Meeting of the Company at which directors are to be elected, and subject to Article 58 above, the Board of Directors (or a Committee thereof) shall select, by a resolution adopted by a majority of the Board of Directors (or such Committee), the Persons to be proposed to the Shareholders for election as directors at such General Meeting (the “**Nominees**”). Any Proposing Shareholder requesting to include on the agenda of a General Meeting a nomination of a Person to be proposed to the Shareholders for election as director (such person, an “**Alternate Nominee**”), may so request provided that it complies with this Article 61 and Article 35 and applicable law. In addition to any information required to be included in accordance with applicable law, such a Proposal Request shall include information required pursuant to Article 35, and shall also set forth: (i) the name, address, telephone number, fax number and email address of the Alternate Nominee and all citizenships and residencies of the Alternate Nominee; (ii) a description of all arrangements, relations or understandings between the Proposing Shareholder(s) or any of its affiliates and each Alternate Nominee; (iii) a declaration signed by the Alternate Nominee that he consents to be named in the Company’s notices and proxy materials relating to the General Meeting, if provided or published, and, if elected, to serve on the Board of Directors and to be named in the Company’s disclosures and filings, (iv) a declaration signed by each Alternate Nominee as required under the Companies Law and any other applicable law and stock exchange rules and regulations for the appointment of such an Alternate Nominee and an undertaking that all of the information that is required under law and stock exchange rules and regulations to be provided to the Company in connection with such an appointment has been provided (including, information in respect of the Alternate Nominee as would be provided in response to the applicable disclosure requirements under Annual Report on Form 20-F or any other applicable form prescribed by the United States Securities and Exchange Commission); (v) a declaration made by the Alternate Nominee of whether (s)he meets the criteria for an independent director and/or External Director of the Company under the Companies Law and/or under any applicable law, regulation or stock exchange rules, and if not, then an explanation of why not; and (vi) any other information required at the time of submission of the Proposal Request by applicable law, regulations or stock exchange rules. In addition, the Proposing Shareholder shall promptly provide any other information reasonably requested by the Company. The Board may refuse to acknowledge the nomination of any person not made in compliance with the foregoing. The Company shall be entitled to publish any information provided by a Proposing Shareholder pursuant to this Article 61 and Article 35, and the Proposing Shareholder shall be responsible for the accuracy and completeness thereof.
62. The Nominees or Alternate Nominees shall be elected by a Simple Majority (provided, however, that in the case of contested election, the Nominees or Alternate Nominees shall be elected by a vote of plurality of the votes cast), and by a resolution adopted at the Annual Meeting at which they are subject to election, unless the number of directors is less than the minimum number of directors required by Article 57 above and the Board did not appoint any person to fill the vacancy, in which case, the Alternate Nominees may be elected at any General Meeting.

For the purposes of these Articles, any General Meeting shall be considered a “contested election” if the total number of nominees for election to the Board of Directors at such meeting (including all persons (i) with respect to whom a shareholder has delivered, in due time pursuant to the Companies Law and these Articles, a notice of its intent to nominate at such meeting and (ii) with respect to whom such notice of intent to nominate has not been withdrawn by such shareholder prior to the date of the definitive proxy statement filed by the Company with the United States Securities and Exchange Commission with respect to such meeting, as such date is set forth in the definitive proxy statement) made in compliance with these Articles and the Companies Law exceeds the total number of Nominees or Alternate Nominees to be elected at such meeting. At any General Meeting at which Nominees or Alternate Nominees are to be elected, each shareholder shall be entitled to cast a number of votes with respect to nominees for election to the Board of Directors up to the total number of Nominees or Alternate Nominees to be elected at such meeting.\

63. The term of office of a director shall commence on the date of such director's election by the Annual Meeting or by the Board or on a later date, should such date be determined in the resolution of appointment of the Annual Meeting or of the Board. Subject to Articles 65 and 65 below, a General Meeting may dismiss a director during the term, with or without cause, only by a Special Majority vote.
64. An amendment to Articles 56-65 shall require a Special Majority.
65. For so long as the Founders, together with their respective Permitted Transferees, each hold Voting Control of two percent (2%) or more of the Company's outstanding ordinary shares, the Founders shall jointly have the sole right (the "**Appointment Right**") to appoint (by way of written notice signed by both Founders) one (1) director to the Board (the "**Founder Director**") which director may be either of the Founders and the Founders may in like manner remove (by way of written notice signed by both Founders) with or without cause any Founder Director so appointed and may in like manner appoint another person (which is not a Founder) in his or her stead; provided, however, that the Appointment Right shall be suspended if either Founder is otherwise serving on the Board. In the event that only one Founder, together with his Permitted Transferees, holds Voting Control of two percent (2%) or more of the Company's outstanding ordinary shares, the Appointment Right and right of removal set forth in the previous sentence shall inure solely to such Founder (by way of written notice signed by such Founder); provided, however, that the Appointment Right shall be suspended if such Founder is otherwise serving on the Board. The term of office of the Founder Director appointed pursuant to this Article shall expire at the earlier of (i) such time as the Appointment Right is suspended and (ii) such time as the Founders, together with their respective Permitted Transferees, no longer jointly hold Voting Control of two percent (2%) or more of the Company's outstanding ordinary shares; provided, however, that at such time as the Appointment Rights are no longer suspended, the Founders will have the Appointment Rights provided in this Article. Once the Founders, together with their respective Permitted Transferees, do not jointly hold Voting Control of two percent (2%) or more of the Company's outstanding ordinary shares, the Appointment Right of this Article shall terminate. It is hereby clarified that nothing in this Article 65 is intended, nor shall it be construed, to create a separate class for the Company's ordinary shares held by any of the Founders (and their Permitted Transferees) and such shares shall be voted together with the ordinary shares held by any other shareholders at any annual or special meeting of the shareholders and not as a separate class.

For the purposes of these Articles, "**Permitted Transferee**" means:

(A) a trust for the benefit of such Founder or the Immediate Family of such Founder so long as such Founder has sole dispositive power and exclusive Voting Control with respect to the ordinary shares held by such trust; provided that the establishment of such trust does not involve any payment to the Founder of cash, securities, property or other consideration (other than an interest in such trust);

(B) a trust under the terms of which such Founder has retained a “qualified interest” within the meaning of §2702(b)(1) of the Internal Revenue Code and/or a reversionary interest so long as the Founder has sole dispositive power and exclusive Voting Control with respect to the ordinary shares held by such trust;

(C) an Individual Retirement Account, as defined in Section 408(a) of the Internal Revenue Code, or a pension, profit sharing, share bonus or other type of plan or trust of which such Founder is a participant or beneficiary and which satisfies the requirements for qualification under Section 401 of the Internal Revenue Code; provided that in each case such Founder has sole dispositive power and exclusive Voting Control with respect to the ordinary shares held in such account, plan or trust; and

(D) a corporation, partnership or limited liability company in which such Founder directly, or indirectly through one or more Permitted Transferees, owns shares, partnership interests or membership interests, as applicable, with sufficient Voting Control in the corporation, partnership or limited liability company, as applicable, or otherwise has legally enforceable rights, such that the Founder retains sole dispositive power and exclusive Voting Control with respect to the shares of ordinary shares held by such corporation, partnership or limited liability company.

For the purposes of these Articles, “**Change of Control Transaction**” means (i) the sale, lease, exchange, or other disposition (other than liens and encumbrances created in the ordinary course of business, including liens or encumbrances to secure indebtedness for borrowed money that are approved by the Company’s Board, so long as no foreclosure occurs in respect of any such lien or encumbrance) of all or substantially all of the Company’s property and assets (which shall for such purpose include the property and assets of any direct or indirect subsidiary of the Company), provided that any sale, lease, exchange or other disposition of property or assets exclusively between or among the Company and any direct or indirect subsidiary or subsidiaries of the Company shall not be deemed a “Change of Control Transaction”; (ii) the merger, consolidation, business combination, or other similar transaction of the Company with any other entity, other than a merger, consolidation, business combination, or other similar transaction that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company and more than fifty percent (50%) of the total number of outstanding shares of the Company’s share capital, in each case as outstanding immediately after such merger, consolidation, business combination, or other similar transaction, and the shareholders of the Company immediately prior to the merger, consolidation, business combination, or other similar transaction continuing to own voting securities of the Company, the surviving entity or its parent immediately following the merger, consolidation, business combination, or other similar transaction in substantially the same proportions (vis a vis each other) as such shareholders owned of the voting securities of the Company immediately prior to the transaction; (iii) a recapitalization, liquidation, dissolution, or other similar transaction involving the Company, other than a recapitalization, liquidation, dissolution, or other similar transaction that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity or its parent) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company and more than fifty percent (50%) of the total number of outstanding shares of the Company’s share capital, in each case as outstanding immediately after such recapitalization, liquidation, dissolution or other similar transaction, and the shareholders of the Company immediately prior to the recapitalization, liquidation, dissolution or other similar transaction continuing to own voting securities of the Company, the surviving entity or its parent immediately following the recapitalization, liquidation, dissolution or other similar transaction in substantially the same proportions (vis a vis each other) as such shareholders owned of the voting securities of the Company immediately prior to the transaction.



For the purposes of these Articles, “**Founder**” means each of Ruvi Kitov and Reuven Harrison.

For the purposes of these Articles, “**Immediate Family**” means any child, stepchild, grandchild or other descendant, any parent, stepparent, grandparent or other ancestor, any spouse, domestic partner, sibling, niece, nephew, uncle, aunt, mother-in-law, father-in-law, son-in-law, daughter-in-law, or brother-in-law or sister-in-law, including adoptive relationships.

For the purposes of these Articles, “**Voting Control**” means the power (whether directly or indirectly) to vote or direct the voting of an equity interest by proxy, voting agreement, or otherwise. Notwithstanding the foregoing, a person shall still be considered to possess Voting Control notwithstanding (a) the grant of a proxy to officers or directors of the Company at the request of the Board in connection with actions to be taken at an annual or special meeting of shareholders; (b) the fact that the spouse of any Founder possesses or obtains an interest in such Founder’s ordinary shares arising solely by reason of the application of the community property laws of any jurisdiction, so long as no other event or circumstance shall exist or have occurred that grants such spouse the power to vote or direct the voting of such ordinary shares; or (c) in connection with a Change of Control Transaction that has been approved by the Board, the entering into a support, voting, tender or similar agreement or arrangement, and/or the grant of a proxy, that has also been approved by the Board.

66. Notwithstanding anything to the contrary in these Articles, the election, qualification, removal or dismissal of External Directors shall be only in accordance with the applicable provisions set forth in the Companies Law.

#### **Remuneration**

67. The Company shall determine the remuneration of the directors, if any, in accordance with the Law.

#### **Chairman of the Board**

68. The Board shall appoint one of its members to serve as the Chairman and may replace the Chairman from time to time. The Chairman shall preside at meetings of the Board, but if at any meeting the Chairman is not present within fifteen (15) minutes after the time appointed for holding the meeting, the present directors shall choose a present director to be chairman of such meeting.

## PROCEEDINGS OF THE DIRECTORS

69. The directors shall meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they deem fit, subject to these Articles.

Unless otherwise determined by the Board, written notice of any meeting of the Board and the agenda setting out the matters to be discussed at such meeting, shall be given to all directors at least seventy two (72) hours (or such shorter notice (i) if all the directors so agree or (ii) in the case of emergency, if a majority of the directors so agree) before the meeting. A majority of the members of the Board may decide to hold a meeting without such notice, provided the Chairman participates in such meeting.

### Quorum

70. No business shall be transacted at any meeting of the Board unless a quorum of directors is present when a meeting is called to order. A quorum shall be deemed to exist when there are present at least half of the directors then in office.

If a quorum is not present at the meeting of the Board within half an hour after the time scheduled for the meeting, the meeting may be adjourned to another time as shall be decided by the Chairman, or in his absence, the directors present at the meeting, provided that notice of no less than twenty four (24) hours in advance shall be given to all the directors of the time of the adjourned meeting. The directors may waive the necessity of such notice either beforehand or retrospectively. The quorum for the commencement of the adjourned meeting shall be at least one member of the Board.

### Methods of Attending Meetings

71. Some or all of the directors may attend meetings of the Board through computer network, telephone or any other media of communication, enabling the directors to communicate with each other, in the deemed presence of all of them, provided that due prior notice detailing the time and manner of holding a given meeting is served upon all the directors. The directors may waive the necessity of such notice either beforehand or retrospectively.

Any resolution adopted by the Board in such a meeting, pursuant to the provisions of these Articles, will be recorded in writing and signed by the Chairman (or in his absence by the chairman of the meeting), and shall be valid as if adopted at a meeting of the Board duly convened and held.

72. A resolution in writing signed by all of the directors eligible to participate in the discussion and vote on such resolution, or in respect of which all such directors have agreed (in writing by mail, fax or electronic mail) not to convene, shall be as valid and effective for all purposes as if passed at a meeting of the Board duly convened and held.

Any such resolution may consist of several counterparts, each signed by one or more directors. Such resolution in writing shall be effective as of the last date appearing on the resolution, or if the resolution is signed in two or more counterparts, as of the last date appearing on the counterparts.

73. While exercising his/her voting right, each director shall have one vote. Resolutions of the Board will be decided by a simple majority of the directors present and voting, not taking into consideration abstaining votes, except as otherwise provided in these Articles or by the Statutes. In the event the vote is tied, the Chairman of the Board shall have a casting vote.
74. Reserved.

#### **Committees**

75. The Board may set up committees and appoint members to these committees subject to the Statutes. A resolution passed or an act done by such a committee pursuant to an authority granted to such committee by the Board shall be treated as a resolution passed or act done by the Board, unless expressly otherwise prescribed by the Board or the Statutes for a particular matter or in respect of a particular committee.
76. Meetings of committees and proceedings thereat (including the convening of the meetings, the election of the chairman and the votes) shall be governed by the provisions herein contained for regulating the meetings and proceedings of the Board so far as the same are applicable thereto and unless otherwise determined by the Board, including by an adoption of a charter governing the committee proceedings.

#### **Approval of Certain Transactions with Related Parties**

77. Subject to the Law and pursuant to Section 271 of the Law, a transaction between the Company and an Office Holder (other than with respect to the compensation terms of such Office Holder), and a transaction between the Company and another entity in which an Office Holder of the Company has a personal interest, which is not an Extraordinary Transaction (as defined by the Law), may be approved by either the Board or a committee of the Board or any other body or person (who has no personal interest in the transaction) authorized by the Board. Such authorization, as well as the actual approval by the authorized body or person, may be for a particular transaction or more generally for specific type of transactions.

#### **Records and Validity of Acts**

78. The resolutions of the Board shall be recorded in the Company's Minutes Book, as required under the Statutes, signed by the Chairman or the chairman of a certain meeting. Such signed minutes shall be deemed *prima facie* evidence of the meeting and the resolutions resolved therein.
79. All acts done bona fide by any meeting of the Board or of a committee of the Board or by any person acting as a director, shall, notwithstanding it be afterwards discovered that there was some defect in the appointment of any such director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a director.

### **Chief Executive Officer**

80. The Board shall appoint at least one CEO, for such period and upon such terms as the Board deems fit.
81. The CEO shall have all managing and execution powers within the policies and guidelines set forth by the Board, and shall be under the supervision of the Board. The CEO may delegate any of his powers to his subordinates, subject to the approval of the Board.

### **INSURANCE, EXCULPATION, AND INDEMNITY**

#### **Insurance of Office Holders**

82. The Company may insure the liability of an Office Holder, to the fullest extent permitted under the Statutes.
83. Without derogating from the aforesaid, the Company may enter into a contract to insure the liability of an officer therein for an obligation imposed on him in consequence of an act done in his capacity as an Office Holder, in any of the following cases:
- 83.1. A breach of the duty of care vis-a-vis the Company or vis-a-vis another person, to the extent such a breach arises out of the negligent conduct of the office holder;
- 83.2. A breach of the duty of loyalty vis-a-vis the Company, provided that the Office Holder acted in good faith and had a reasonable basis to believe that the act would not harm the Company;
- 83.3. A monetary obligation imposed on him in favor of another person;
- 83.4. A monetary liability imposed on such Office Holder in favor of a payment to a breach offended at an Administrative Procedure as set forth in Section 52(54)(a)(1)(a) to the Securities Law and expenses regarding Administrative Procedures conducted in connection with such Office Holder and/or in connection with a monetary sanction, including reasonable litigation expenses and reasonable attorney's fees;
- 83.5. Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of an Office Holder in the Company.

#### **Indemnity of Office Holders**

84. The Company may indemnify an Office Holder, to the fullest extent permitted under the Statutes. Without derogating from the aforesaid, the Company may indemnify an Office Holder for a liability or expense imposed on him in consequence of an act done in his capacity as an Office Holder in the Company, as follows:
- 84.1. a monetary liability incurred by or imposed on the Office Holder in favor of another person pursuant to a court judgment, including pursuant to a settlement confirmed as judgment or arbitrator's decision approved by a competent court;

- 84.2. reasonable litigation expenses, including reasonable attorneys' fees, which were incurred by the Office Holder as a result of an investigation or proceeding filed against the Office Holder by an authority authorized to conduct such investigation or proceeding, provided that such investigation or proceeding was either (i) concluded without the filing of an indictment against such Office Holder and without the imposition on him of any monetary obligation in lieu of a criminal proceeding; (ii) concluded without the filing of an indictment against the Office Holder but with the imposition of a monetary obligation on the Office Holder in lieu of criminal proceedings for an offense that does not require proof of criminal intent; or (iii) in connection with a monetary sanction;
- 84.3. reasonable litigation expenses, including attorneys' fees, incurred by the Office Holder or which were imposed on the Office Holder by a court (i) in a proceeding instituted against the Office Holder by the Company, on its behalf, or by a third party, or (ii) in connection with criminal indictment of which the Office Holder was acquitted, or (iii) in a criminal indictment which the Office Holder was convicted of an offense that does not require proof of criminal intent;
- 84.4. a monetary liability imposed on the Office Holder in favor of all the injured parties by the breach in an Administrative Procedure as set forth in Section 52(54)(a)(1)(a) to the Securities Law;
- 84.5. expenses expended by the Office Holder with respect to an Administrative Procedure under the Securities Law, including reasonable litigation expenses and reasonable attorneys' fees; and
- 84.6. any other obligation or expense in respect of which it is permitted or will be permitted under applicable law to indemnify an Office Holder.

#### **Advance Indemnity**

- 85. The Company may give an advance undertaking to indemnify an Office Holder therein in respect of the following matters:
  - 85.1. matters as detailed in Article 84.1, provided however, that the undertaking is restricted to events, which in the opinion of the Board, are anticipated in light of the Company's activities at the time of granting the obligation to indemnify and is limited to a sum or measurement determined by the Board as reasonable under the circumstances. The indemnification undertaking shall specify such events and sum or measurement; and
  - 85.2. matters as detailed in Articles 84.2 through 84.6.

#### **Retroactive Indemnity**

- 86. The Company may indemnify an Office Holder retroactively with respect of the matters as detailed in Article 84, subject to any applicable law.

### **Exculpation**

87. The Company may exempt an Office Holder in advance for all or any of his liability for damage in consequence of a breach of the duty of care vis-a-vis the Company, to the fullest extent permitted under the Statutes. However, the Company may not exempt a director in advance from his liability toward the Company due to the breach of his/her duty of care in a Distribution.

### **Insurance, Exculpation and Indemnity – General**

88. The above provisions with regard to insurance, exemption and indemnity are not and shall not limit the Company in any way with regard to its entering into an insurance contract and/or with regard to the grant of indemnity and/or exemption in connection with a person who is not an Office Holder of the Company, including employees, contractors or consultants of the Company, all subject to any applicable law.
89. The Company may enter into a contract in relation to exemption, indemnification and insurance of Office Holders in companies under its control, related companies and other companies in which it has any interest, to the maximum extent permitted under the Statutes, and in this context the foregoing provisions in relation to exemption, indemnification and insurance of Office Holders in the Company shall apply, *mutatis mutandis*.
90. An undertaking in relation to exemption, indemnification and insurance of an Office Holder as aforesaid may also be valid after the office of such Office Holder in the Company has terminated.

### **APPOINTMENT OF AN AUDITOR**

91. Subject to the Statutes, the Annual Meeting shall appoint an Auditor for a period ending at the next Annual Meeting, or for a longer period, but no longer than until the third Annual Meeting after the meeting at which the Auditor has been appointed. The same Auditor may be re-appointed.
- Subject to the Statutes, the terms of service (including fees) of the Auditor for the audit services shall be determined by the Board, at its discretion, or a committee of the Board if such determination was delegated to a committee, including undertakings or payments to the Auditor. The Board shall report the fees of the Auditor to the Annual Meeting.

### **INTERNAL AUDITOR**

92. So long as the Company is a Public Company, the Board shall appoint an Internal Auditor pursuant to the recommendation of the Audit Committee.
93. The organizational superior of the Internal Auditor shall be the Chairman. The Internal Auditor shall submit a proposed annual or periodic work plan to the Audit Committee or the Board, which will approve such plan with changes as it deems fit, at its discretion.

### **MERGER AND REORGANIZATION**

94. Notwithstanding anything to the contrary hereunder, the majority required for the approval of a merger by the general meeting or by a class meeting, if any, shall be a Simple Majority.

## **SIGNATORIES**

95. Signatory rights on behalf of the Company shall be determined from time to time by the Board.

## **DISTRIBUTIONS**

96. The Board may decide on a Distribution, subject to the provisions set forth under the Law and these Articles.
97. The Board will determine the method of payment of any Distribution. The receipt of the person whose name appears on the record date on the Register as the owner of any share, or in the case of joint holders, of any one of such joint holders, shall serve as confirmation with respect to all the payments made in connection with that share and in respect of which the receipt was received. All dividends unclaimed after having been declared may be invested or otherwise used by the Directors for the benefit of the Company until claimed, provided however that the Company shall not be required to accept any claim made following the 7th anniversary of the declaration date, or an earlier date as may be determined by the Board. No unpaid dividend shall bear interest or accrue linkage differentials.
98. For the purpose of implementing any resolution concerning any Distribution, the Board may settle, as it deems fit, any difficulty that may arise with respect to the Distribution, including determining the value for the purpose of the said Distribution of certain assets, and deciding that payments in cash shall be made to the shareholders based on the value so determined, and determining provisions with respect to fractions of shares or with respect to the non-payment of small sums.

## **REDEEMABLE SECURITIES**

99. The Company shall be entitled to issue redeemable securities which are, or at the option of the Company may be, redeemed on such terms and in such manner as shall be determined by the Board. Redeemable securities shall not constitute part of the Company's capital, except as provided in the Law.

## **DONATIONS**

100. The Company may make donations of reasonable amounts of money for purposes which the Board deems to be worthy causes, even if the donations are not made in relation to business considerations for increasing the Company's profits.

## **NOTICES**

101. Subject to the Statutes, notice or any other document which the Company shall deliver and which it is entitled or required to give pursuant to the provisions of these Articles and/or the Statutes shall be delivered by the Company to any person, in any one of the following manners as the Company may choose: in person, by mail, transmission by fax or by electronic form.

Any notice or other document which shall be sent shall be deemed to have reached its destination on the third day after the day of mailing if sent by registered mail or regular mail, or on the first day after transmission if delivered in person, transmitted by fax or electronic form.

Should it be required to prove delivery, it shall be sufficient to prove that the notice or document sent contains the correct mailing, e-mail, or fax details as registered in the Register or any other address which the shareholder submitted in writing to the Company as the address and fax or e-mail details for the submission of notices or other documents.

Notwithstanding anything to the contrary hereunder, subject to the provisions of the Statutes, a notice to a shareholder may be served, as a general notice to all shareholders, published by the Company on the website of (i) the United States Securities and Exchange Commission, and (ii) the Company, in accordance with applicable rules and regulations of any stock market upon which the Company's shares are listed and, if so published, shall be deemed to have been duly given on the date of such publication to any shareholder.

In cases where it is necessary to give advance notice of a particular number of days or notice which shall remain in effect for a particular period, the day the notice was sent shall be excluded and the scheduled day of the meeting or the last date of the period shall be included in the count.

The Company shall not be required to give notice to its registered shareholders pursuant to the Companies Law, unless otherwise required by Statutes. Subject to the Statutes, the Company shall not be required to send notices to any shareholder who is not registered in the Register or has not provided the Company with accurate and sufficient mailing details.

102. Any notice to be given to the shareholders shall be given, with respect to joint shareholders, to the person whose name appears first in the Register as the holder of the said share, and any notice so given shall be sufficient notice for all holders of the said share.
103. Any notice or other document served upon or sent to any shareholder in accordance with these Articles shall, notwithstanding that he be then deceased or bankrupt, and whether the Company received notice of his death or bankruptcy or not, be deemed to be duly served or sent in respect of any shares held by him (either alone or jointly with others) until some other person is registered in his stead as the holder or joint holder of such shares, and such service or sending shall be a sufficient service or sending on or to his heirs, executors, administrators or assigns and all other persons (if any) interested in such share.
104. The accidental omission to give notice to any shareholder or the non-receipt of any such notice shall not cancel or annul any action made in reliance on the notice.

#### **WINDING-UP**

105. If the Company is wound up, then, subject to applicable law and to the rights of the holders of shares with special rights upon winding up, the assets of the Company available for distribution among the shareholders shall be distributed to them in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made.

#### **EXCLUSIVE FORUM**

106. Unless otherwise agreed in writing by the Company as to the selection of an alternative forum:

the federal district courts of the United States shall be the exclusive forum for the resolution of any claim arising under the Securities Act of 1933, as amended (the "federal forum selection provision"); and

the Tel Aviv District Court (Economic Division) shall be the exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Company to the Company or the Company's shareholders, or (iii) any action asserting a claim arising pursuant to any provision of the Israeli Companies Law 5759-1999 or the Israeli Securities Law 5728-1968 (the "Israeli forum selection provision") (together, the "Amendment").

Any person or entity purchasing or otherwise acquiring or holding any interest in shares of capital stock of the Company shall be deemed to have notice of and consented to these provisions.

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**Registration Number and Purposes of the Company**

Our registration number with the Israeli Registrar of Companies is 51-362739-8. Our purpose as set forth in our amended and restated articles of association is to engage in any lawful activity.

**Voting Rights and Conversion**

All ordinary shares have identical voting and other rights in all respects.

**Transfer of Shares**

Our fully paid ordinary shares are issued in registered form and may be freely transferred under our amended and restated articles of association, unless the transfer is restricted or prohibited by another instrument, applicable law or the rules of a stock exchange on which the shares are listed for trade. The ownership or voting of our ordinary shares by non-residents of Israel is not restricted in any way by our amended and restated articles of association or the laws of the State of Israel, except for ownership by nationals of some countries that are, or have been, in a state of war with Israel.

**Liability to Further Capital Calls**

Our board of directors may make, from time to time, such calls as it may deem fit upon shareholders with respect to any sum unpaid with respect to shares held by such shareholders, which is not payable at a fixed time. Such shareholder shall pay the amount of every call so made upon him. Unless otherwise stipulated by the board of directors, each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares with respect to which such call was made. A shareholder shall not be entitled to his rights as shareholder, including the right to dividends, unless such shareholder has fully paid all the notices of call delivered to him, or which according to our amended and restated articles of association are deemed to have been delivered to him, together with interest, linkage and expenses, if any, unless otherwise determined by the board of directors.

**Business Combinations**

Under our amended and restated articles of association, we may not engage in any “business combinations” with any “interested shareholder” for a three-year period following the time that such shareholder became an interested shareholder, unless:

- prior to the time that such shareholder became an interested shareholder, our board of directors approved either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder; or
- upon consummation of the transaction which resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of our voting shares outstanding at the time the transaction commenced excluding for purposes of determining our voting shares outstanding (but not the outstanding voting shares owned by the interested shareholder) those shares owned by persons who are directors and also officers; or
- at the time that such shareholder became an interested shareholder, or subsequent to such time, the business combination is approved by our board of directors and authorized at a general meeting of shareholders by the affirmative vote of at least 66 2/3% of our voting shares outstanding that are not owned by the interested shareholder.

Generally, a “business combination” includes any merger, consolidation, sale or other transaction resulting in a financial benefit to the interested shareholder. Subject to certain exceptions, an “interested shareholder” is any person (other than us and any of our direct or indirect majority-owned subsidiaries) who, together with such person’s affiliates and associates, owns, or within the previous three years owned, 15% or more of our voting shares.

Under certain circumstances, this provision will make it more difficult for a person who would be an “interested shareholder” to effect various business combinations with a corporation for a three-year period. This provision may encourage companies interested in acquiring us to negotiate in advance with our board of directors because the shareholder approval requirement would be avoided if our board of directors approves either the business combination or the transaction which results in the shareholder becoming an interested shareholder. These provisions also may have the effect of preventing changes in our board of directors and may make it more difficult to accomplish transactions which shareholders may otherwise deem to be in their best interests.

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## **Election of Directors**

Our ordinary shares do not have cumulative voting rights for the election of directors. As a result, the holders of a majority of the voting power represented at a shareholders meeting have the power to elect our directors, except any founder director.

Under our amended and restated articles of association, the number of directors on our board of directors must be no less than six and no more than 10. The minimum and maximum number of directors may be changed, at any time and from time to time, by a special vote of the holders of at least 2/3 of our outstanding shares.

Other than any founder director, the vote required to appoint a director is a simple majority vote. In addition, under our amended and restated articles of association, our board of directors may elect new directors to fill vacancies (whether such vacancy is due to a director no longer serving or due to the number of directors serving being less than the maximum required in our amended and restated articles of association), provided that the total number of directors shall not, at any time, exceed 10 directors and provided that our board of directors may not elect any founder director. Our amended and restated articles of association provide that the term of a director appointed by our board of directors to fill any vacancy will be for the remaining term of office of the director(s) whose office(s) have been vacated. Furthermore, under our amended and restated articles of association, our directors, other than any founder director, are divided into three classes with staggered three-year terms. Each class of directors consists, as nearly as possible, of 1/3 of the total number of directors constituting the entire board of directors (other than any founder director).

## **Dividend and Liquidation Rights**

We have never declared or paid any cash dividends on our ordinary shares. We may declare a dividend to be paid to the holders of our ordinary shares in proportion to their respective shareholdings.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of our ordinary shares in proportion to their shareholdings. This right, as well as the right to receive dividends, may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

## **Exchange Controls**

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except for shareholders who are subjects of certain countries that are, or have been, in a state of war with Israel at such time.

## **Shareholder Meetings**

Under Israeli law, we are required to hold an annual general meeting of our shareholders once every calendar year that must be held no later than 15 months after the date of the previous annual general meeting. All general meetings other than the annual meeting of shareholders are referred to in our amended and restated articles of association as special meetings. Our board of directors may call special meetings whenever it sees fit, at such time and place, within or outside of Israel, as it may determine. In addition, the Israeli Companies Law provides that our board of directors is required to convene a special general meeting upon the written request of (i) any two of our directors or one-quarter of the members of our board of directors or (ii) one or more shareholders holding, in the aggregate, either (a) 5% or more of our outstanding issued shares and 1% or more of our outstanding voting power or (b) 5% or more of our outstanding voting power.

Under Israeli law, one or more shareholders holding at least 1% of the voting rights at the general meeting may request that the board of directors include a matter in the agenda of a general meeting to be convened in the future, such as nominating a director candidate, provided that it is appropriate to discuss such a matter at the general meeting. Our articles of association contain procedural guidelines and disclosure items with respect to the submission of shareholder proposals for shareholders meetings.

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Subject to the provisions of the Israeli Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which may be between four and 40 days prior to the date of the meeting. Furthermore, the Israeli Companies Law requires that resolutions regarding, among other things, the following matters must be passed at a general meeting of our shareholders:

- amendments to our amended and restated articles of association;
- appointment or termination of our auditors;
- election of directors (unless otherwise determined in our amended and restated articles of association);
- approval of certain related party transactions;
- increases or reductions of our authorized share capital;
- a merger; and
- the exercise of our board of directors' powers by a general meeting, if our board of directors is unable to exercise its powers and the exercise of any of its powers is required for our proper management.

Under our amended and restated articles of association, we are not required to give notice to our registered shareholders pursuant to the Israeli Companies Law, unless otherwise required by law. The Israeli Companies Law requires that a notice of any annual general meeting or special general meeting be provided to shareholders at least 21 days prior to the meeting and if the agenda of the meeting includes the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, or an approval of a merger, or as otherwise required under applicable law, notice must be provided at least 35 days prior to the meeting. Under the Israeli Companies Law, shareholders of a public company are not permitted to take action by written consent in lieu of a meeting. Our amended and restated articles of association provide that a notice of general meeting shall be published by us on Form 6-K at a date prior to the meeting as required by law.

## **Voting Rights**

### *Quorum Requirements*

Pursuant to our amended and restated articles of association, holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote before the shareholders at a general meeting. Under our amended and restated articles of association, the quorum required for general meetings of shareholders must consist of at least two shareholders present in person or by proxy (including by voting deed) holding 1/3 or more of our voting rights. A meeting adjourned for lack of a quorum will generally be adjourned to the same day of the following week at the same time and place, or to such other day, time or place as indicated by our board of directors if so specified in the notice of the meeting. At the reconvened meeting, any number of shareholders present in person or by proxy shall constitute a lawful quorum.

### *Vote Requirements*

Our amended and restated articles of association provide that all resolutions of our shareholders require a simple majority vote, unless otherwise required by the Israeli Companies Law or by our amended and restated articles of association.

Our amended and restated articles of association provide that all resolutions of our board of directors require a simple majority vote of the directors present and voting at such meeting, unless otherwise required by the Israeli Companies Law or by our amended and restated articles of association. Pursuant to our amended and restated articles of association, in the event the vote is tied, the chairman of the board of directors will have a casting vote.

Pursuant to our amended and restated articles of association, an amendment to our amended and restated articles of association regarding any change of the composition or election procedures of our directors will require a special majority vote (66 2/3%). In addition, any change to the rights and privileges of the holders of any class of our shares requires a simple majority of the class so affected (or such other percentage of the relevant class that may be set forth in the governing documents relevant to such class), in addition to the simple majority vote of all classes of shares voting together as a single class at a shareholder meeting.

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Under the Israeli Companies Law, each of (i) the approval of an extraordinary transaction with a controlling shareholder and (ii) the terms of employment or other engagement of the controlling shareholder of the company or such controlling shareholder's relative (even if not extraordinary) requires the approval described in the final prospectus filed with our Form F-1 Registration Statement (No. 333-230109) on April 1, 2019 under "Management-Fiduciary Duties and Approval of Specified Related Party Transactions and Compensation under Israeli Law-Disclosure of Personal Interests of a Controlling Shareholder and Approval of Transactions." Certain transactions with respect to remuneration of our office holders and directors require further approvals described above under "Management—Fiduciary Duties and Approval of Specified Related Party Transactions and Compensation under Israeli Law—Compensation of Directors and Executive Officers." Another exception to the simple majority vote requirement is a resolution for the voluntary winding up, or an approval of a scheme of arrangement or reorganization, of the company pursuant to Section 350 of the Israeli Companies Law, which requires the approval of holders of 75% of the voting rights represented at the meeting, in person or by proxy and voting on the resolution.

#### *Access to Corporate Records*

Under the Israeli Companies Law, shareholders are provided access to: minutes of our general meetings; our shareholders register and material shareholders register, our amended and restated articles of association, our financial statements and any document that we are required by law to file publicly with the Israeli Companies Registrar or the Israel Securities Authority. In addition, shareholders may request to be provided with any document related to an action or transaction requiring shareholder approval under the related party transaction provisions of the Israeli Companies Law. We may deny this request if we believe it has not been made in good faith or if such denial is necessary to protect our interest or protect a trade secret or patent.

#### *Modification of Class Rights*

Under the Israeli Companies Law and our amended and restated articles of association, the rights attached to any class of share, such as voting, liquidation and dividend rights, may be amended by adoption of a resolution by the holders of a majority of the shares of that class present at a separate class meeting, or otherwise in accordance with the rights attached to such class of shares, in addition to the simple majority vote of all classes of shares voting together as a single class at a shareholder meeting, as set forth in our amended and restated articles of association.

#### *Registration Rights*

For a discussion of registration rights we have granted to our shareholders, see the final prospectus filed with our Form F-1 Registration Statement (No. 333-230109) on April 1, 2019 under "Item 7.B. Related Party Transactions—Registration Rights."

### **Acquisitions under Israeli Law**

#### *Full Tender Offer*

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the target company's issued and outstanding share capital is required by the Israeli Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. A person wishing to acquire shares of a public Israeli company and who would as a result hold over 90% of the issued and outstanding share capital of a certain class of shares is required to make a tender offer to all of the shareholders who hold shares of the relevant class for the purchase of all of the issued and outstanding shares of that class. If the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a tender offer will also be accepted if the shareholders who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of shares.

Upon a successful completion of such a full tender offer, any shareholder that was an offeree in such tender offer, whether such shareholder accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition an Israeli court to determine whether the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, under certain conditions, the offeror may include in the terms of the tender offer that an offeree who accepted the offer will not be entitled to petition the Israeli court as described above.

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If (i) the shareholders who did not respond or accept the tender offer hold at least 5% of the issued and outstanding share capital of the company or of the applicable class or the shareholders who accept the offer constitute less than a majority of the offerees that do not have a personal interest in the acceptance of the tender offer or (ii) the shareholders who did not accept the tender offer hold 2% or more of the issued and outstanding share capital of the company (or of the applicable class), the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class from shareholders who accepted the tender offer.

### *Special Tender Offer*

The Israeli Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights in the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received shareholder approval, (2) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company.

In the event that a special tender offer is made, a company's board of directors is required to express its opinion on the advisability of the offer, or shall abstain from expressing any opinion if it is unable to do so, provided that it gives the reasons for its abstention. In addition, the board of directors must disclose any personal interest each member of the board of directors has in the offer or stems therefrom.

A special tender offer must be extended to all shareholders of a company but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer (excluding the purchaser and its controlling shareholders, holders of 25% or more of the voting rights in the company or any person having a personal interest in the acceptance of the tender offer or any other person acting on their behalf, including the relatives and entities under such person's control). If a special tender offer is accepted, then the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

### *Merger*

The Israeli Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Israeli Companies Law are met, by a majority vote of each party's shares, and, in the case of the target company, a majority vote of each class of its shares, voted on the proposed merger at a shareholders meeting. The board of directors of a merging company is required pursuant to the Companies Law to discuss and determine whether in its opinion there exists a reasonable concern that as a result of a proposed merger, the surviving company will not be able to satisfy its obligations towards its creditors, such determination taking into account the financial status of the merging companies. If the board of directors has determined that such a concern exists, it may not approve a proposed merger.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the votes of shares represented at the shareholders meeting that are held by parties other than the other party to the merger, or by any person (or group of persons acting in concert) who holds (or hold, as the case may be) 25% or more of the voting rights or the right to appoint 25% or more of the directors of the other party, vote against the merger. If, however, the merger involves a merger with a company's own controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling shareholders. See "Item 6.C. Board Practices—Disclosure of Personal Interests of a Controlling Shareholder and Approval of Transactions."

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If the transaction would have been approved by the shareholders of a merging company but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the value to the parties to the merger and the consideration offered to the shareholders of the company.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merging entities, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be consummated unless at least 50 days have passed from the date on which a proposal for approval of the merger was filed by each party with the Israeli Registrar of Companies and at least 30 days have passed from the date on which the merger was approved by the shareholders of each party.

Israeli tax law treats some acquisitions, such as share-for-share exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such share-for-share swap.

### **Anti-Takeover Measures under Israeli Law**

The Israeli Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights with respect to voting, distributions or other matters and shares having preemptive rights. No preferred shares are authorized under our amended and restated articles of association. In the future, if we do authorize, create and issue a specific class of preferred shares, such class of shares, depending on the specific rights that may be attached to it, may have the ability to frustrate or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization and designation of a class of preferred shares will require an amendment to our amended and restated articles of association, which requires the prior approval of the holders of a majority of the voting power attaching to our issued and outstanding shares at a general meeting. The convening of the meeting, the shareholders entitled to participate and the majority vote required to be obtained at such a meeting will be subject to the requirements set forth in the Israeli Companies Law as described above in “—Voting Rights.”

### **Borrowing Powers**

Pursuant to the Israeli Companies Law and our amended and restated articles of association, our board of directors may exercise all powers and take all actions that are not required under law or under our amended and restated articles of association to be exercised or taken by our shareholders, including the power to borrow money for company purposes.

### **Changes in Capital**

Our amended and restated articles of association enable us to increase or reduce our share capital. Any such changes are subject to the provisions of the Israeli Companies Law and must be approved by a resolution duly adopted by our shareholders at a general meeting. In addition, transactions that have the effect of reducing capital, such as the declaration and payment of dividends in the absence of sufficient retained earnings or profits, require the approval of both our board of directors and an Israeli court.

### **Establishment**

We were incorporated under the laws of the State of Israel on January 2, 2005. We are registered with the Israeli Registrar of Companies.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our ordinary shares is American Stock Transfer & Trust Company, LLC. Its address is 6201 15th Avenue, Brooklyn, New York 11219, and its telephone number is +1 (800) 937-5449.

### **Listing**

Our ordinary shares are listed on the NYSE under the symbol “TUFN.”

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**List of Subsidiaries of Tufin Software Technologies Ltd.**

<b>Name of Subsidiary</b>	<b>Place of Incorporation</b>
Tufin Software North America Inc.	Delaware, United States
Tufin Software Europe Limited	United Kingdom
Tufin Software France SARL	France
Tufin Software Germany GmbH	Germany
Tufin Software Australia Pty Ltd	Australia
Tufin Software SRL	Romania

**COMPENSATION POLICY**

**TUFIN SOFTWARE TECHNOLOGIES LTD.**

**Compensation Policy for Executive Officers (including Directors)**

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## **A. Overview and Objectives**

### **1. Introduction**

This document sets forth the compensation policy for executive officers (this "**Compensation Policy**" or "**Policy**") of Tufin Software Technologies Ltd. ("**Tufin**" or the "**Company**" and "**Executive Officers**", accordingly), in accordance with the requirements of the Companies Law 5759-1999 (the "**Companies Law**").

Compensation is a key component of Tufin's overall human capital strategy to attract, retain, reward, and motivate highly skilled individuals that will enhance Tufin's value and otherwise assist Tufin to reach its business and financial short and long-term goals. Accordingly, this Policy was established to tie the compensation of each Executive Officer to Tufin's goals and performance.

For purposes of this Policy, "**Executive Officers**" shall mean "Office Holders" as such term is defined in Section 1 of the Companies Law.

This Compensation Policy shall apply to compensation agreements and arrangements that are approved after the date on which this Compensation Policy is approved by the general meeting of Tufin's shareholders and shall serve as Tufin's Compensation Policy for the maximum period permitted by any applicable law. This Compensation Policy will not, and is not intended to, apply to or be deemed to amend employment and/or compensation terms of Executive Officers that were duly approved prior to its effective date. The Compensation Committee (upon its appointment in accordance with applicable law) and the Board of Directors of Tufin (the "**Compensation Committee**" and "**Board**", respectively) shall administer, review and reassess the adequacy of this Policy from time to time, as required by the Companies Law. Subject to the terms and conditions of this Policy and any mandatory provisions of applicable law, and in addition to the Board's powers provided elsewhere in this Policy and by the Companies Law, the Board shall have full authority in its discretion, from time to time and at any time, to (i) interpret this Policy; (ii) prescribe, amend and rescind rules and regulations relating to and for carrying out this Policy, as it may deem appropriate; and (iii) and any other matter which it determined to be necessary or desirable for, or incidental to, the administration of this Policy and any determination made pursuant thereto.

It should be clarified, that wherever reference is made to the required approvals in this Compensation Policy, such reference relates to the applicable law as of the date of approval of this Compensation Policy and in any case is subject to the provisions of Sections 33 and 35 below.

Each of the Executive Officers may be engaged as employee and/or as an independent service provider (including through a company controlled by him, against the issuance of a tax invoice to the Company), provided that if the Executive Officers is engaged as an independent service provider the total amount paid to him (including, but not limited to, value added tax) shall not exceed the maximum amounts paid to Executive Officers who are engaged as employees as specified in this Policy.

This Policy shall not apply to any subsidiaries of the Company except for an employee of a Company subsidiary who is also an Executive Officer of the Company.

### **2. Objectives**

Tufin's objective in adopting this Compensation Policy is to foster a merit- and performance-based culture in order to attract, motivate and retain highly qualified personnel that enhances short-term and long-term shareholder value while adhering to Tufin's core values. To that end, this Policy is designed, among other things:

- 2.1. to closely align the interests of the Executive Officers with those of Tufin's shareholders with a view to enhancing shareholder value;

- 2.2. to provide the Executive Officers with a structured compensation package, while creating a balance between fixed components (*i.e.*, base salary and social benefits) and variable components (*i.e.* bonuses and equity-based compensation) in order to minimize potential conflicts between the interests of Executive Officers and Tufin;
- 2.3. to discourage excessive risk taking in advancing Tufin's business; and
- 2.4. to strengthen retention and the motivation of Executive Officers in the short and long term.

This Compensation Policy was prepared taking into account the Company's nature, size and business and financial characteristics.

### 3. **Compensation structure and instruments**

Compensation instruments under this Compensation Policy may include the following:

- base salary;
- benefits and perquisites;
- cash bonuses (short-to-medium term incentive);
- equity based compensation (medium-to-long term incentive);
- retirement and termination of service arrangements payments; and
- change of control arrangements.

For the purpose of this Compensation Policy:

"**Base Salary**" shall mean gross salary, before contributions to social benefits; and

"**Employment Cost**" shall mean any payment for employment, including contributions to social benefits, car and expenses of the use thereof, bonuses and any other benefit or payment.

### 4. **Overall Compensation**

#### 4.1. *General*

In setting the compensation of an Executive Officer, the Compensation Committee and the Board shall consider, among other things, the following factors:

- the education, qualifications, professional experience, seniority and accomplishments of the Executive Officer; and
- the Executive Officer's position, responsibilities and prior compensation arrangements.

In setting the compensation of an Executive Officer, the Compensation Committee and the Board may also consider, among other things, the following factors:

- the Executive Officer's expected contribution to the Company's future growth, profitability and stability;
- the degree of responsibility imposed on the Executive Officer;
- the need to retain Executive Officers who have relevant skills, know-how or unique expertise;
- accounting and tax considerations and implications;

- the Company's financial status;
- data of other companies (including U.S.-based companies), including companies in comparable industries and/or geographic markets, and compensation for comparably situated executives; and
- any requirements prescribed by the Companies Law, U.S. securities laws and NYSE rules from time to time.

The Compensation Committee and Board may engage compensation advisors and other professionals to assist in formulating compensation packages in line with this Policy, including, without limitation, to assist in preparing, collecting and analyzing applicable compensation and benefit surveys and other relevant data; framing the appropriate parameters to be considered; and evaluating the different parameters.

#### 4.2. *Ratio Between Fixed and Variable Compensation*

This Policy aims to balance the mix of "fixed compensation", comprised of base salary and benefits ("**Fixed Compensation**") and "variable compensation", comprised of cash bonuses and equity based compensation<sup>1</sup> (including but not limited to adjustment period/retirement bonuses, granted in accordance with Section 20 below) ("**Variable Compensation**") in order to, among other things, appropriately incentivize Executive Officers to meet Tufin's short and long term goals while taking into consideration the Company's need to manage a variety of business risks.

The total Variable Compensation of each Executive Officer shall not exceed 95% of the total compensation package of an Executive Officer on an annual basis. The Board believes that such limit reflects the appropriate compensation mix in the event that all performance objectives are achieved and assumes that all compensation elements are awarded with respect to a given year.

It should be clarified that the Fixed Compensation may constitute 100% of the total compensation package for an Executive Officer in any year (under circumstances in which a variable component is not approved for that year and/or in the event of a failure to meet previously established goals, if and when determined).

#### 5. **Intra-Company Compensation Ratio**

In drafting this Policy, Tufin's Board has considered the ratio between employer cost, as such term is defined in the Companies Law, associated with the engagement of the Executive Officers and the average and median employer cost associated with the engagement of the other employees (including those employed through manpower companies) of Tufin (the "**Ratio**"). The Board believes that the current Ratio does not adversely impact the work environment in Tufin.

### **B. Base Salary and Benefits (Excluding Directors)**

#### 6. **Base Salary**

- 6.1. Base Salary varies among Executive Officers, is individually determined by the Company and may be reviewed and adjusted by the Company on a periodic basis at its sole discretion. When determining Base Salary, the Company may also consider, at its sole discretion, prevailing pay levels in the relevant market, Base Salary and the total compensation package of comparable Executive Officers in the Company, the ratio between the Executive Officer's compensation package and the compensation of other employees in the Company and specifically the median and average salaries and the effect of such ratios on working relations at the Company.

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<sup>1</sup> Determined according to acceptable valuation practices at the time of grant.

6.2. Base Salary shall not exceed the amount specified in the table below:

<b>The Executive Officer</b>	<b>Maximum Base Salary</b>
CEO	\$600,000
CTO	\$350,000
Other Executive Officers (excluding directors)	\$350,000

The Company may link the Base Salary of an Executive Officer to the Israeli Consumer Index or to the exchange rate of any currency.

The exchange rate of US dollar to NIS will be the representative rate of exchange determined by the Bank of Israel as of the date of approval of the compensation of the relevant Executive Officer by the Company's board of directors.

Since the Executive Officers hold senior management positions, as defined in the Hours of Work and Rest Law, 5711-1951, this law shall not apply to the terms of their office, and they shall not be entitled to any form of compensation for overtime or for working during weekly rest periods.

The maximum Base Salary set forth in this section is based on the Executive Officer's full-time position. With respect to an Executive Officer employed by the Company on a part-time basis, the Base Salary maximum will be reduced proportionately, with the Board having the authority to determine the scope of the position of the Executive Officer and change it from time to time.

## 7. **Benefits**

7.1. In addition to the Base Salary, the following benefits may be granted to the Executive Officer in order to, among other things, comply with legal requirements:

- paid vacation days in accordance with market practice and applicable law, up to a cap of 45 days per annum, including, if applicable, the redemption thereof;
- sick days in accordance with market practice and applicable law; however, the Company may decide to cover sick days from the first day;
- convalescence pay;
- medical insurance;
- severance pay;
- with respect to Executive Officers employed in Israel: monthly remuneration for a study fund ("Keren Hishtalmut"), as allowed by applicable tax law and with reference to Tufin's practice and common market practice;
- employer contribution to an insurance policy or a pension fund for severance and pension in accordance with market practice and applicable law (including, payment of such contribution or any portion thereof, directly to the Executive Officer);

- employer contribution towards work disability insurance in accordance with market practice and applicable law; and
- holiday and special occasion gifts.

The above list is non-exclusive, and subject to receiving any approvals that are required under applicable law, Tufin may grant its Executive Officers other similar, comparable or customary benefits. In addition, Executive Officers employed outside of Israel may receive other similar or comparable benefits that are customary in the jurisdiction in which they are employed.

- 7.2. The Company may offer additional benefits to its Executive Officers, including but not limited to: telecommunication and electronic devices and communication expenses, company car and travel benefits, newspaper subscriptions, periodic medical examinations, holiday and special occasion gifts, academic and professional studies. For the avoidance of doubt, the grant of registration rights to an Executive Officer shall not be deemed an employment benefit for any purpose.
- 7.3. The Company may reimburse its Executive Officers for reasonable work-related expenses incurred as part of their activities, including without limitations, meeting participation expenses, reimbursement of business travel, including a daily stipend when traveling and accommodation expenses. The Company may provide advance payments to its Executive Officers in connection with work-related expenses.
- 7.4. **The total amount of the benefits to an Executive Officer shall not exceed \_\_% of the Executive Officer's Base Salary.**

#### 8. **Signing Bonus**

Tufin may grant a newly recruited Executive Officer a signing bonus. Such bonus may be granted in cash, equity or a combination of both (in addition to a cash bonus that can be granted under Chapter C and in addition to equity that can be granted under Chapter D). The signing bonus will not exceed:

- 8.1. 100% of such Executive Officer's annual Base Salary, if the signing bonus is granted in cash;
- 8.2. (i) \$5 million maximum fair value for the Chief Executive Officer and (ii) \$1.5 million maximum fair value for other Executive Officers, if the signing bonus is granted in equity, in each case determined according to acceptable valuation practices at the time of grant;
- 8.3. In case the signing bonus is a combination of cash and equity, its ceiling shall be proportional to the cash and equity components, calculated in accordance with the ratios mentioned in Sections 8.1 and 8.2 above.

To the extent possible under the circumstances of each case, the Compensation Committee and the Board shall consider awarding a signing bonus only to provide for the replacement awards that the newly hired Executive Officer forfeited from his or her previous employer, and to the extent possible shall structure such signing bonus to reflect performance, vesting and other conditions equivalent to the forfeited awards; provided however that such bonus shall not be greater than the amounts specified in Sections 8.1 and 8.2 above.

#### 9. **Reimbursement for Relocation**

Tufin may reimburse an Executive Officer for relocation and related expenses in an amount not to exceed \$500,000 for each relocation.

#### **C. Cash Bonuses (Excluding Directors)**

The Company may grant cash bonuses to its Executive Officers (excluding directors) quarterly, annually or on a shorter or longer basis, in accordance with the principles detailed below.

10. **Annual Bonuses**

10.1. The annual bonus that may be paid for any fiscal year to the CEO shall not exceed twenty-four (24) monthly Base Salaries for all Executive Officers.

10.2. Bonus Criteria

The annual bonus will be based mainly on measurable criteria (referring to Company and/or individual performance measures), and a non-material portion of the annual bonus shall be determined at the discretion of the Compensation Committee and the Board, in accordance with the following metrics:

<b>Position</b>	<b>Company/Individual Performance Measures</b>	<b>Company's Discretion</b>
CEO	up to 100%	not to exceed the higher of: (i) three monthly salaries; or (ii) 25% of the annual variable compensation.

The measurable criteria, target level of achievement and maximum level of achievement, and their relative weight shall be determined (and brought to the attention of the Executive Officers when determined prior to the relevant year or in the beginning of such year (i.e., by March 31 of each year).

In addition, to be eligible for an annual bonus, the Executive Officer must be actively employed by the Company or one of its subsidiaries during the relevant year to which the bonus relates, which condition may be subject to additional limitations, which may include being employed for a minimum period of time during the relevant year or through a certain date.

During a specific year, the Compensation Committee may change the measurable criteria and their relative weight for that year, insofar as exceptional events occur that warrant such a change taking into account: (i) the date of the update; (ii) the balance of the period until the end of the year; (iii) the expectation of the Executive Officers who are affected by the update of the criteria; and (iv) the need for effective new criteria that create an incentive for the Executive Officers.

Examples of measurable criteria that will be considered include, without limitation:

- financial results (e.g., collections, revenues, pre-tax profits);
- sales and marketing objectives;
- cost savings;
- internal and external customer satisfaction;
- success in raising capital and/or debt;
- meeting the Company's budget;
- number of customers; and
- other key performance indicators.

Examples of non-measurable criteria that will be considered include, without limitation:

- contribution to the Company's business, profitability and stability;
- the need to retain an Executive Officer with skills, know-how or unique expertise;
- the responsibility imposed on the Executive Officer;
- changes that occurred in the responsibility imposed on the Executive Officer during the year;
- performance satisfaction, including assessing the degree of involvement of the Executive Officer and devotion of efforts in the performance of his or her duties;
- assessment of the Executive Officer's ability to work in coordination and cooperation with other employees; and
- the contribution to an appropriate control environment and ethical environment.

The bonus for meeting the objectives that an Executive Officer has met, shall be calculated by multiplying: (i) the weighting of such objective by (ii) the bonus amount.

An Executive Officer will be entitled to a bonus on a pro rata basis for partial compliance of at least 80% of the objective set for such Executive Officer, unless otherwise determined by the Board and the compensation committee.

Notwithstanding the provisions of Section 10.2 above, the annual bonus to Executive Officers which are not the CEO may be based in whole or in part on discretion (including based on the CEO's opinion on the contribution of the Executive Officer to the Company), provided that it does not exceed the ceiling specified in Section 10.1 above.

## 11. **Special Bonuses**

In addition to the annual bonus, Tufin may award an Executive Officer a special bonus based on the achievement by the Company or the Executive Officer of specific goals or the occurrence of specific corporate events (such as private or public offerings, mergers and acquisitions or specific projects, achieving target budget or business plan under exceptional circumstances or for special recognition in the case of retirement). A special bonus shall not exceed twelve (12) monthly Base Salaries. A Special Bonus together with an Annual Bonus shall not exceed thirty six (36) monthly Base Salaries

### **Additional Provisions Relating to Cash Bonuses**

#### 11.1. **Pro Rata Payment**

Should the employment or service of the Executive Officer terminate prior to the end of a fiscal year, Tufin may, in its discretion, and to the extent not already required under the terms of the Executive Officer's employment agreement, pay the Executive Officer his or her pro-rata share of that fiscal year's bonus, based on: (i) whether or not the objectives for that calendar year were achieved; and (ii) the period such Executive Officer was employed by the Company or has served in the Company.

#### 11.2. **Compensation Recovery ("Clawback")**

11.2.2. The terms of employment of each Executive Officer shall entitle the Company to recover from such Executive Officer any compensation, including equity-based compensation, in the amount by which such compensation exceeded what would have been paid under the financial statements as restated ("**Compensation Recovery**"), provided that a claim is made by Tufin prior to the third (3<sup>rd</sup>) anniversary of the fiscal year end of the restated financial statements.



11.2.3. Notwithstanding the aforesaid, the Compensation Recovery will not be triggered in the following events:

- The financial restatement is required due to changes in applicable financial reporting standards; or
- The Company (subject to any required approval by the applicable law) has determined that clawback proceedings in the specific case would be impossible, impractical or not commercially or legally efficient.

11.3. **Reduction or Postponement**

In the event of the termination of office of an Executive Officer under circumstances in which he or she will not be entitled to severance pay, the Company (subject to the approvals of the Compensation Committee and the Board) may revoke the entitlement of such an Executive Officer to an annual bonus and to all parts of the annual bonus which have not yet been paid to him.

11.4. **Timing of Payment**

Annual bonuses will be paid to Executive Officers in respect of each calendar year of the employment period no later than the date of payment of the first salary after the date of approval by the Board of the Company's annual audited financial statements.

Unless a personal employment agreement explicitly determines otherwise, any payment that is made to the Executive Officer on account of variable compensation according to this Compensation Policy, if paid, is not and will not be deemed as part of the Executive Officer's base salary for all intents and purposes and will not constitute a basis for calculation or for entitlement or for accrual of any related right, including, and without derogating from the generality of the aforesaid, not as a component included in the payment of leave, severance pay, contributions to the provident funds etc.

11.5. **Taxation**

Insofar as any tax liability or other mandatory payment shall be levied on the variable compensation (national insurance, national health tax etc.), the Executive Officer shall bear all such taxes pursuant to law (insofar as it shall apply to the Executive Officer pursuant to law).

**D. Equity Compensation**

12. **General and Objectives**

- 12.1. The Company may grant from time to time equity-based compensation which will be individually determined and awarded, among other things, based on the performance, educational background, prior business experience, qualifications, role and the personal responsibilities of the Executive Officer. Equity-based compensation may also be awarded to the Company's directors provided that any director that is also employed by the Company shall not receive any additional equity compensation in his or her capacity as a director.
- 12.2. The primary objective of equity-based compensation is to enhance the alignment between the interests of the Executive Officers and those of Tufin and its shareholders, and to retain and motivate the Executive Officers. In addition, since equity-based awards are structured to vest over several years, their incentive value to recipients is aligned with medium and longer-term strategic plans.

12.3. The equity-based compensation offered by Tufin is intended to be in a form of stock options exercisable for shares of Company common stock, restricted shares or restricted share units (“RSUs”), performance share units and/or other equity-based awards in accordance with the Company’s 2019 Equity Incentive Plan, as amended from time to time, and under such other equity incentive plans for service providers of the Company or its Affiliates that the Company may adopt from time to time.

13. **Fair Market Value**

The fair market value of equity compensation for each Executive Officer granted during a calendar year shall not exceed 20X his or her annual Base Salary, determined according to acceptable valuation practices at the time of grant.

14. **Taxation Regime**

Subject to any applicable law, Tufin may determine, the tax regime under which equity-based compensation may be granted, including a tax regime which will maximize the benefit to the Executive Officers.

15. **Exercise Period**

The exercise price for a stock option awarded to an Israeli-resident Executive Officer who is not a United States taxpayer shall equal the average price of the Company’s closing share price over the thirty (30) consecutive trading days on the stock exchange or quotation system on which the Company’s shares are traded prior to the grant date of the stock options. If the Company’s shares are traded on more than one stock exchange and/or quotation system, the Company shall determine the relevant stock exchange or quotation system for these purposes. The fair market value for a stock option awarded to a non-Israeli-resident Executive Officer shall equal the closing price of the Company’s shares on the date of grant.

Unless otherwise determined by the Compensation Committee, and subject to the provisions of any applicable law, restricted shares and RSUs are not exercised, but rather shares become issued to the holder upon vesting or settlement of the award, as applicable, except to the extent that the holder is required to pay the par value of any underlying shares. In addition, it shall be clarified, that the vesting of restricted shares and RSUs may be subject to the achievement of goals set in advance and approved in accordance with the applicable law.

Stock options may be exercised on a "cashless" basis.

The Board considered the possibility of determining a ceiling for the exercise value of the variable equity components and decided, taking into account the purpose of the equity-based compensation, not to set such a ceiling in this Policy.

16. **Vesting**

17. All equity-based incentives granted to the Executive Officers shall be subject to vesting periods in order to promote long-term retention of such recipients. Grants to Executive Officers (excluding directors) shall vest gradually over a period of no less than three (3) years and no more than four (4) years, while grants to newly appointed directors shall vest over a period of no less than three (3) years and currently serving directors no less than one (1) year. Such grants may be vested on a quarterly, semi-annual or an annual basis, or based on other time periods (which may not be necessarily equal), as determined by the Company. The Company may condition the vesting of part or all of the equity-based incentives, for some or all of its Executive Officers, upon the achievement of predetermined performance goals. The Company (subject to the abovementioned required approvals) may also set terms relating to vesting in connection with an Executive Officer leaving the Company (due to a dismissal, resignation, death or disability). For details regarding ceilings with respect to director’s equity-based compensation see section 29 below.

18. **General**

All other terms of the equity awards shall be in accordance with Tufin's incentive plans and other related practices and policies. Accordingly, the Company may extend the period of time for which an award is to remain exercisable and make provisions with respect to the acceleration of the vesting period of any Executive Officer's awards, including, without limitation, in connection with a corporate transaction involving a change of control, subject to any additional approval as may be required by applicable law. The Committee may amend other terms of an Executive Officer's grant to the extent provided in the applicable equity incentive plan.

**E. Retirement and Termination of Service Arrangements (Excluding Directors)**

19. **Advanced Notice Period**

19.1. Tufin may provide each Executive Officer (excluding directors), pursuant to an Executive Officer's employment agreement advance notice of termination of up to twelve (12) months (the "**Advance Notice Period**"). During the Advance Notice Period, the Executive Officer shall continue to be entitled to all compensation elements, and to the continuation of vesting of equity awards.

19.2. During the Advance Notice Period, an Executive Officer will be required to keep performing his/her duties pursuant to his or her agreement with the Company, unless the Company waives such performance and pays the amount of compensation payable during such Advance Notice Period in lieu of notice.

20. **Adjustment Period/Retirement Bonus**

In addition to the Advance Notice Period, the Company may provide an adjustment period/retirement payment that will be determined by, among other things, taking into consideration the Executive Officer's seniority in the Company, his or her performance during employment, his or her contribution to Tufin achieving its goals and the circumstances of the Executive Officer's retirement or termination. The maximum adjustment period/retirement payment that may be paid to each Executive Officer shall be up to twelve (12) monthly Base Salaries and may only be granted to Executive Officers who have served in the Company for at least twelve (12) months.

21. **Additional Retirement and Termination Benefits**

Tufin may provide additional retirement and terminations benefits and payments: (i) as may be required by applicable law (e.g., mandatory severance pay under Israeli labor laws- unless employment/term of service was terminated for cause); or (ii) which will be comparable to customary market practices, provided however that they shall not exceed twenty four (24) monthly Base Salaries (inclusive of any advance notice period).

**F. Exemption, Indemnification and Insurance**

22. **Exemption**

Tufin may exempt, either in advance and/or retroactively, its Executive Officers from any liability to the Company, in whole or in part, for damages in consequence of his or her duty of care vis-a-vis the Company, to the fullest extent permitted by law and subject to the provisions of the Company's Articles of Association.

23. **Indemnification**

Tufin may indemnify its Executive Officers to the fullest extent permitted by applicable law and the Company's Articles of Association, for any liability and expense that may be imposed on the Executive Officer, as provided in the Indemnity Agreement between such individuals and Tufin, all subject to applicable law and the Company's Articles of Association.

24. **Insurance**

24.1. Tufin may provide "Directors' and Officers' Liability Insurance" (the "**Insurance Policy**"), as well as a "**run off**" insurance policy for its Executive Officers as follows:

- The annual premium to be paid by Tufin shall not exceed \$3,000,000 of the aggregate coverage of the Insurance Policy;

- The limit of liability of the insurer shall be up to \$75 million per event and in the aggregate in the insurance period.
- The deductible amount per each claim shall not exceed \$ 4 million.
- The Insurance Policy, as well as the limit of liability and the premium for each extension or renewal shall be approved by the relevant organs of the Company, which ensure that the terms of the Insurance Policy comply with the above.
- The policy will also cover the liability of the controlling shareholders due to their positions as Executive Officers in the Company, from time to time, provided that the coverage terms in this respect do not exceed those of the other Executive Officers in the Company.

#### **G. Arrangements upon Change of Control**

25. Upon a "Change of Control" (as defined in the relevant agreement with each Executive Officer) following which the employment of the Executive Officer is terminated, the following benefits may be granted to the Executive Officers in addition to the benefits applicable in the case of any retirement or termination of service:

- 25.1. accelerated vesting of equity awards;
- 25.2. extension of the exercise period of equity awards for a period of up to twenty-four (24) months following the date of termination of employment to the extent it complies with applicable law;
- 25.3. extension of the Advance Notice Period set forth in section 19.1 above by up to nine (9) additional months; and
- 25.4. an adjustment period/retirement bonus in accordance with section 20 above, of up to twelve (12) months of Employment Cost.

The total Advance Notice Period and adjustment period/retirement bonus shall not exceed twenty four (24) monthly Base Salaries.

#### **H. Board of Directors Compensation**

26. The compensation of the Company's directors (including external directors and independent directors) shall not exceed the following:

- 26.1. Base payment of \$35,000 per year (the "**Base Payment**");
- 26.2. Chairman of the Board- an additional amount of \$35,000 per year to the Base Payment;
- 26.3. Committee Chairman- an additional amount of \$20,000 per year to the Base Payment;
- 26.4. Committee member- an additional amount of \$10,000 per year to the Base Payment;

27. In addition, the Company may engage with its directors (excluding external and independent directors) for the receipt of consulting services and/or other special services, for a consideration of up to \$1,000 per day, plus reasonable expense reimbursement. Such compensation shall be paid for a maximum of 6 days per year for each director.

28. Directors may be granted equity-based compensation in accordance with the applicable principles detailed in Section D of this Policy, and subject to the provisions of the Companies Law and the regulations thereunder.<sup>2</sup>

Equity based-compensation granted to the Company's directors, shall not exceed the following amounts (subject to any applicable law):<sup>3</sup>

28.1. \$250,000 for each year of grant according to acceptable valuation practices at the time of grant (the "**Equity Compensation**"); and

28.2. Upon joining the Board, \$500,000 according to acceptable valuation practices at the time of grant;

29. An active Chairman of the Board may receive compensation in accordance with the criteria for compensation of Executive Officer who is not the CEO who are not directors, adjusted to the scope of his position.
30. Tufin's external and independent directors may be entitled to reimbursement of expenses in accordance with the Companies Law and the regulations thereunder.

#### **I. Miscellaneous**

31. This Policy is designed solely for the benefit of Tufin. Nothing in this Compensation Policy shall be deemed to grant any of Tufin's Executive Officers or employees or any third party any right or privilege in connection with their employment by the Company or its subsidiaries and their compensation thereof. Such rights and privileges, to which Executive Officers or employees serving in the Company or that will serve in the Company in the future, are entitled for, shall be governed by the respective personal employment agreements.
32. This Policy is subject to applicable law and is not intended, and should not be interpreted as limiting or derogating from, provisions of applicable law to the extent not permitted, nor should it be interpreted as limiting or derogating from the Company's Articles of Association.
33. This Policy is not intended to affect current agreements nor affect obligating customs (if applicable) between the Company and its Executive Officers as such may exist prior to the approval of this Compensation Policy, subject to any applicable law.
34. In the event of amendments made to the Companies Law or any regulations promulgated thereunder providing relief in connection with Tufin's compensation to its Executive Officers, Tufin may elect to act pursuant to such relief without regard to any conflict with this Policy.
35. The Company (subject to any required approvals by the applicable law) may determine that none or only part of the payments, benefits and perquisites shall be granted, and is authorized to cancel or suspend a compensation package or part of it.
36. An immaterial change in the terms of office of Executive Officers (excluding the CEO, directors, a controlling shareholder or a controlling shareholder's relative) during the term of this Compensation Policy, will be subject to the approval of the Company's CEO only (changes in the terms of office of the CEO shall be approved in accordance with the Companies Law). An immaterial change in this matter shall be deemed to be a change that: (i) does not exceed ten percent (10%) of the total annual compensation of such Executive Officer; and (ii) is in line with the provisions of this Compensation Policy.
37. The compensation components detailed in this Policy do not relate to various components that the Company may provide to all or part of its employees and/or its Executive Officers, such as: parking spaces, entry permits for its assets, reimbursement for meals and accommodation expenses, vacations, company events, etc.
38. This Policy shall take effect upon its approval in accordance with the Companies Law. The term of this Policy shall not be limited in time, except that it will terminate at the earlier of (i) such time that the Policy is no longer in effect under the Companies Law, or (ii) such time that the Policy is terminated by the Board, to the extent that the Board has the power under the Companies Law to terminate the Policy or (iii) such time as the Company shall determine that the Terms of Office and Engagement of Office Holders is not required to be made pursuant to a Compensation Policy under the Companies Law, including, without limitation of the foregoing, in the event that the Company ceases to be a Public Company (as defined in the Companies Law), in which case this Policy shall have no effect with respect to the period after the Company ceasing to be a Public Company.
39. This Policy shall be governed by the laws of the State of Israel, excluding its conflict of law rules, except with respect to matters that are subject to tax or labor laws in any specific jurisdiction, which shall be governed by the respective applicable law of such jurisdiction.

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<sup>2</sup> The equity-based compensation is determined according to acceptable valuation practices at the time of grant,

<sup>3</sup> Determined according to acceptable valuation practices at the time of grant.

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Executive Officer<sup>1</sup>**

I, Reuven Kitov, certify that:

1. I have reviewed this annual report on Form 20-F of Tufin Software Technologies 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 company as of, and for, the periods presented in this report;
4. The company's other certifying officer 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 company 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 company, 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 company'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
  - c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

By: /s/ Reuven Kitov  
Title: Chief Executive Officer and  
Chairman of the Board

Date: March 2, 2021

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**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Financial Officer**

I, Jack Wakileh, certify that:

1. I have reviewed this annual report on Form 20-F of Tufin Software Technologies 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 company as of, and for, the periods presented in this report;
4. The company's other certifying officer 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 company 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 company, 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 company'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
  - c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

By: /s/ Jack Wakileh  
Title: Chief Financial Officer

Date: March 2, 2021

**Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002, of the Chief Executive Officer**

In connection with the Annual Report of Tufin Software Technologies Ltd. (the "Company") on Form 20-F for the fiscal year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Reuven Kitov, do certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- a) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.<sup>2</sup>

By: /s/ Reuven Kitov  
Title: Chief Executive Officer and  
Chairman of the Board

Date: March 2, 2021

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**Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002, of the Chief Financial Officer**

In connection with the Annual Report of Tufin Software Technologies Ltd. (the "Company") on Form 20-F for the fiscal year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack Wakileh, do certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- a) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended;  
and
- b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Jack Wakileh  
Title: Chief Financial Officer

Date: March 2, 2021

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-231985 and No. 333-327291) of Tufin Software Technologies Ltd. of our report dated March 2, 2021 relating to the financial statements and schedule of valuation and qualifying accounts and reserves, which appears in this Form 20-F.

Tel-Aviv, Israel  
March 2, 2021

/s/ Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
A member firm of PricewaterhouseCoopers International Limited

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*Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,  
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