Qualys, Inc.
2020 Annual Report

Qualys, Inc.
2021 Proxy Statement

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QUALYS, INC.
919 East Hillsdale Boulevard, 4th Floor
Foster City, California 94404

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held at 11:00 a.m. Pacific Daylight Time on Wednesday, June 9, 2021

TO THE HOLDERS OF COMMON STOCK
OF QUALYS, INC.:

As part of our continuing precautions regarding the coronavirus (COVID-19), the 2021 Annual Meeting of Stockholders of Qualys, Inc., a Delaware corporation, will be held solely by means of remote communication on **Wednesday, June 9, 2021, at 11:00 a.m. Pacific Daylight Time**.

Stockholders may participate in the meeting only by logging in at:

www.virtualshareholdermeeting.com/QLYS2021

Stockholders will be able to listen to the meeting live, vote and submit questions. There will be no physical location for stockholders to attend the meeting.

The annual meeting will be held for the following purposes as more fully described in the accompanying proxy statement:

1. To elect two Class III directors to serve until the 2024 annual meeting of stockholders or until their successors are duly elected and qualified;
2. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2021;
3. To approve, on an advisory and non-binding basis, the compensation of our named executive officers as described in the proxy statement;
4. To approve the Qualys, Inc. 2021 Employee Stock Purchase Plan and its material terms; and
5. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The board of directors of Qualys, Inc. has fixed the close of business on April 12, 2021 as the record date for the meeting. Only stockholders of record of our common stock on April 12, 2021 are entitled to notice of and to vote at the meeting. Further information regarding voting rights and the matters to be voted upon is presented in the accompanying proxy statement.

On or about April 22, 2021, we expect to mail to our stockholders a Notice of Internet Availability of Proxy Materials (the “Notice”) containing instructions on how to access the proxy statement for the 2021 annual meeting and our 2020 annual report to stockholders. The Notice provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of proxy materials by mail. The proxy statement and our annual report can also be accessed directly at **www.proxyvote.com**. All you have to do is enter the control number located on the Notice or your proxy card.

YOUR VOTE IS IMPORTANT. Whether or not you plan to participate in the annual meeting, we urge you to submit your vote via the Internet, telephone or mail in advance of the meeting. If you plan to participate in the annual meeting, please see the instructions in the accompanying proxy statement.

We appreciate your continued support of Qualys, Inc.

By order of the Board of Directors,

/s/ Sumedh Thakar

Sumedh Thakar
Director, Interim Chief Executive Officer,
President and Chief Product Officer
Foster City, California
April 22, 2021

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PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
to be held on Wednesday, June 9, 2021 at 11:00 a.m. Pacific Daylight Time

This proxy statement and the enclosed form of proxy are furnished in connection with the solicitation of proxies by the board of directors of Qualys, Inc. ("we," "Qualys," or the "Company") for use at our annual meeting of stockholders (the "Annual Meeting") to be held on June 9, 2021, at 11:00 a.m. Pacific Daylight Time, and any postponements, adjournments or continuations thereof. The Annual Meeting will be held online at **www.virtualshareholdermeeting.com/QLYS2021**, where stockholders will be able to listen to the meeting live, vote and submit questions. There will be no physical location for stockholders to attend the meeting.

On or about April 22, 2021, we expect to mail to our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access this proxy statement and our 2020 annual report to stockholders.

The information provided in the "question and answer" format below is for your convenience only and is merely a summary of the information contained in this proxy statement. You should read this entire proxy statement carefully.

How can I participate in the Annual Meeting?

To participate in the Annual Meeting, visit **www.virtualshareholdermeeting.com/QLYS2021** and enter your control number as indicated. You can find your control number on your Notice, proxy card (if you received a printed copy of the proxy materials) or the instructions that accompanied your proxy materials. You will be able to log into the virtual meeting platform beginning at 10:45 a.m. Pacific Daylight Time on June 9, 2021. The meeting will begin promptly at 11:00 a.m. Pacific Daylight Time on June 9, 2021. We encourage you to log into the virtual meeting platform and ensure you can hear streaming audio prior to the meeting start time.

The virtual meeting platform is supported across browsers (Internet Explorer, Firefox, Chrome, and Safari) and devices (desktops, laptops, tablets, and cell phones) running the most updated version of applicable software and plugins. Participants should ensure that they have a strong WiFi connection wherever they intend to participate in the meeting.

If you wish to submit a question during the meeting, log into the virtual meeting platform, type your question into the ''Ask a Question'' field, and click ''Submit.'' Questions pertinent to meeting matters will be answered during the meeting, subject to time constraints. Questions regarding personal matters, including those related to employment, product or service issues, or suggestions for product innovations, should be addressed to the appropriate party on the qualys.com website; these questions are not pertinent to meeting matters and, therefore, will not be answered at the Annual Meeting.

If you encounter any difficulties accessing the meeting, please call the technical support number that will be posted on the virtual meeting platform's log in page.

Why did I receive a notice regarding the availability of proxy materials on the Internet instead of a full set of proxy materials?

In accordance with the rules of the Securities and Exchange Commission ("SEC"), we have elected to furnish our proxy materials, including this proxy statement and our 2020 annual report to stockholders, primarily via the Internet. On or about April 22, 2021, we expect to mail to our stockholders the Notice, which contains instructions on how to access our proxy materials on the Internet, vote at the meeting, and request printed copies of the proxy materials. Stockholders may request to receive all future proxy materials in printed form by mail or electronically by e-mail by following the instructions contained in the Notice. We encourage stockholders to take advantage of the availability of the proxy materials on the Internet to help reduce the environmental impact of our annual meetings.

What matters am I voting on?

You will be voting on:

- the election of two Class III directors to hold office until the 2024 annual meeting of stockholders or until their successors are duly elected and qualified;
- a proposal to ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2021;
- a proposal to approve, on an advisory and non-binding basis, the compensation of our named executive officers as described in this proxy statement;
- a proposal to approve our 2021 Employee Stock Purchase Plan and its material terms; and
- any other business that may properly come before the meeting.

How does the board of directors recommend I vote on these proposals?

Our board of directors recommends a vote:

- **FOR** each of the nominees for election as Class III directors;
- **FOR** the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2021;
- **FOR** the compensation of our named executive officers as described in this proxy statement; and
- **FOR** the approval of our 2021 Employee Stock Purchase Plan and its material terms.

Who is entitled to vote?

Holders of our common stock as of the close of business on April 12, 2021, the record date, may vote at the Annual Meeting. As of the record date, we had 39,191,859 shares of common stock outstanding. In deciding all matters at the Annual Meeting, each stockholder will be entitled to one vote for each share of common stock held on the record date. We do not have cumulative voting rights for the election of directors. A list of stockholders entitled to vote at the Annual Meeting will be available for examination during the meeting at **www.virtualshareholdermeeting.com/QLYS2021**.

Stockholders of Record. If your shares are registered directly in your name with our transfer agent, you are considered the stockholder of record with respect to those shares, and the Notice was provided to you directly by us. As the stockholder of record, you have the right to grant your voting proxy directly to the individuals listed on the proxy card or to vote live at the Annual Meeting.

Beneficial Owners. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and the Notice was forwarded to you by your broker or nominee, who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker or nominee how to vote your shares. Beneficial owners are also invited to attend the Annual Meeting. However, because a beneficial owner is not the stockholder of record, you may not vote your shares live at the Annual Meeting unless you follow your broker's procedures for obtaining a legal proxy. If you request a printed copy of the proxy materials by mail, your broker or nominee will provide a voting instruction card for you to use.

How do I vote?

Stockholders of Record. If you are a stockholder of record, there are several ways for you to vote your shares:

- **Via the Internet—Before the Annual Meeting**. You may vote at **www.proxyvote.com**, 24 hours a day, seven days a week, until 11:59 p.m. Eastern Daylight Time on June 8, 2021. You will need the control number included on your Notice or your proxy card (if you received a printed copy of the proxy materials).
- **Via the Internet—During the Annual Meeting**. You may vote live at the Annual Meeting through the virtual meeting platform by logging into **www.virtualshareholdermeeting.com/QLYS2021**. You will need the control number included on your Notice or your proxy card (if you received a printed copy of the proxy materials).
- **By Telephone**. You may vote using a touch-tone telephone by calling 1-800-690-6903, 24 hours a day, seven days a week, until 11:59 p.m. Eastern Daylight Time on June 8, 2021. You will need the control number included on your Notice or your proxy card (if you received a printed copy of the proxy materials).
- **By Mail**. If you received printed proxy materials, you may submit your vote by completing, signing and dating each proxy card received and returning it in the prepaid envelope. Sign your name exactly as it appears on the proxy card. Proxy cards submitted by mail must be received no later than June 8, 2021, to be voted at the Annual Meeting.

Beneficial Owners. If you are a beneficial owner, you should have received a Notice or voting instructions from the broker or other nominee holding your shares. You should follow the instructions in the Notice or voting instructions provided by your broker or nominee in order to instruct your broker or other nominee on how to vote your shares. The availability of telephone and Internet voting will depend on the voting process of the broker or nominee.

Can I change my vote?

Stockholders of Record. If you are a stockholder of record, you can change your vote or revoke your proxy any time before the Annual Meeting by:

- entering a new vote by Internet or by telephone (only your latest Internet or telephone proxy received by 11:59 p.m. Eastern Daylight Time on June 8, 2021, will be counted);
- signing and returning a new proxy card with a later date to Qualys, Inc., Attention: Corporate Secretary, 919 East Hillsdale Blvd., 4th Floor, Foster City, California 94404, to be received no later than June 8, 2021;
- delivering a written revocation to Qualys, Inc., Attention: Corporate Secretary, 919 East Hillsdale Blvd., 4th Floor, Foster City, California 94404, to be received no later than June 8, 2021; or
- participating in the Annual Meeting live via the Internet and voting again.

Beneficial Owners. If you are a beneficial owner, you must contact the broker or other nominee holding your shares and follow their instructions for changing your vote or revoking your proxy.

What is the effect of giving a proxy?

Proxies are solicited by and on behalf of our board of directors. The persons named in the proxy have been designated as proxies by our board of directors. When proxies are properly dated, executed and returned, the shares represented by such proxies will be voted at the Annual Meeting in accordance with the instruction of the stockholder. If no specific instructions are given, however, the shares will be voted in accordance with the recommendations of our board of directors as described above. If any matters not described in the proxy statement are properly presented at the Annual Meeting, the proxy holders will use their own judgment to determine how to vote your shares. If the Annual Meeting is adjourned, the proxy holders can vote your shares on the new meeting date as well, unless you have properly revoked your proxy instructions, as described above.

What is a quorum?

A quorum is the minimum number of shares required to be present at a meeting of stockholders for action to be taken at the meeting. Under our bylaws, the presence, live or represented by proxy, of a majority of all issued and outstanding shares of common stock entitled to vote at the Annual Meeting will constitute a quorum at the meeting. A proxy submitted by a stockholder may indicate that all or a portion of the shares represented by the proxy are not being voted (“stockholder withholding”) with respect to a particular matter. Similarly, a broker may not be permitted to vote stock (“broker non-vote”) held in street name on a particular matter in the absence of instructions from the beneficial owner of the stock. See “How may my brokerage firm or other intermediary vote my shares if I fail to provide timely directions?” The shares subject to a proxy that are not being voted on a particular matter because of either stockholder withholding or broker non-vote will count for purposes of determining the presence of a quorum. Abstentions are also counted in the determination of a quorum.

How many votes are needed for approval of each matter?

- *Proposal No. 1:* The election of directors requires a plurality of the votes cast at the meeting, meaning that the individuals who receive the largest number of votes cast “for” their election are elected as directors. As a result, any shares not voted “for” a particular nominee (whether as a result of “withhold” votes or broker non-votes) will not be counted in such nominee’s favor and will have no effect on the outcome of the election. You may vote “for” or “withhold” on each of the nominees for election as a director.
- *Proposal No. 2:* The ratification of the appointment of Grant Thornton LLP must receive the affirmative vote of a majority of the shares present in person or by proxy at the meeting and entitled to vote thereon to be approved. You may vote “for,” “against” or “abstain” on this proposal. Abstentions represent shares present and entitled to vote and thus, will have the same effect as votes “against” this proposal.
- *Proposal No. 3:* The approval, on an advisory and non-binding basis, of the compensation of our named executive officers as described in this proxy statement must receive the affirmative vote of a majority of the shares present in person or by proxy at the meeting and entitled to vote thereon to be approved. You may vote “for,” “against” or “abstain” on this proposal. Abstentions represent shares present and entitled to vote and thus, will have the same effect as votes “against” this proposal. Broker non-votes will have no effect on the outcome of this proposal because they represent shares that are not entitled to vote on the matter.
- *Proposal No. 4:* The approval of our 2021 Employee Stock Purchase Plan and its material terms must receive the affirmative vote of a majority of the shares present in person or by

proxy at the meeting and entitled to vote thereon to be approved. You may vote “for,” “against” or “abstain” on this proposal. Abstentions represent shares present and entitled to vote and thus, will have the same effect as votes “against” this proposal. Broker non-votes will have no effect on the outcome of this proposal because they represent shares that are not entitled to vote on the matter. If stockholders do not approve Proposal No. 4, then the 2021 Employee Stock Purchase Plan will not become effective.

How are proxies solicited for the Annual Meeting?

Our board of directors is soliciting proxies for use at the Annual Meeting. All expenses associated with this solicitation will be borne by us. We will reimburse brokers or other nominees for reasonable expenses that they incur in sending these proxy materials to you if a broker or other nominee holds your shares.

How may my brokerage firm or other intermediary vote my shares if I fail to provide timely directions?

Brokerage firms and other intermediaries holding shares of common stock in street name for customers are generally required to vote such shares in the manner directed by their customers. In the absence of timely directions, your broker will have discretion to vote your shares on our sole “routine” matter—the proposal to ratify the appointment of Grant Thornton LLP. Your broker will not have discretion to vote on the election of directors, the proposal to approve executive compensation or the proposal to approve our 2021 Employee Stock Purchase Plan and its material terms, absent direction from you.

Is my vote confidential?

Proxy instructions, ballots, and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Qualys, Inc. or to third parties, except as necessary to meet applicable legal requirements, to allow for the tabulation of votes and certification of the vote, or to facilitate a successful proxy solicitation.

Where can I find the voting results of the Annual Meeting?

We will announce preliminary voting results at the Annual Meeting. We will also disclose voting results on a Current Report on Form 8-K that we will file with the SEC within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Current Report on Form 8-K, we will file a Current Report on Form 8-K to publish preliminary results and will provide the final results in an amendment to the Form 8-K as soon as they become available.

I share an address with another stockholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

We have adopted a procedure called “householding,” which the SEC has approved. Under this procedure, we deliver a single copy of the Notice and, if applicable, the proxy materials to multiple stockholders who share the same address unless we received contrary instructions from one or more of the stockholders. This procedure reduces our printing costs, mailing costs, and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards. Upon written or oral request, we will deliver promptly a separate copy of the Notice and, if applicable, the proxy materials to any stockholder at a shared address to which we delivered a single copy of any of these documents. To receive a separate copy, or, if you are receiving multiple copies, to request that

Qualys only send a single copy, of the Notice and, if applicable, the proxy materials, stockholders may contact us as follows:

Qualys, Inc.
Attention: Investor Relations
919 East Hillsdale Boulevard, 4^{th} Floor
Foster City, California 94404
(650) 801-6100

Stockholders who hold shares in street name may contact their brokerage firm, bank, broker-dealer or other similar organization to request information about householding.

What is the deadline to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?

Stockholder Proposals

Stockholders may present proper proposals for inclusion in our proxy statement and for consideration at the next annual meeting of stockholders by submitting their proposals in writing to our Corporate Secretary in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for our 2022 annual meeting of stockholders, our Corporate Secretary must receive the written proposal at our principal executive offices not later than December 23, 2021. In addition, stockholder proposals must comply with the requirements of Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

Qualys, Inc.
Attention: Corporate Secretary
919 East Hillsdale Boulevard, 4^{th} Floor
Foster City, California 94404
(650) 801-6100

Our bylaws also establish an advance notice procedure for stockholders who wish to present a proposal before an annual meeting of stockholders but do not intend for the proposal to be included in our proxy statement for that meeting. Our bylaws provide that the only business that may be conducted at an annual meeting is business that is (i) specified in our proxy materials with respect to such meeting, (ii) otherwise properly brought before the meeting by or at the direction of our board of directors, or (iii) properly brought before the meeting by a stockholder who (A) is a stockholder of record at the time of giving the required notice and on the record date for the determination of stockholders entitled to vote at the annual meeting and (B) has delivered timely written notice to our Corporate Secretary, which notice must contain the information specified in our bylaws. To be timely for our 2022 annual meeting of stockholders, our Corporate Secretary must receive the written notice at our principal executive offices:

- not earlier than February 6, 2022; and
- not later than the close of business on March 8, 2022.

In the event that we hold our 2022 annual meeting of stockholders more than 30 days before or more than 60 days after the one-year anniversary of the date of the Annual Meeting, then notice of a stockholder proposal that is not intended to be included in our proxy statement must be received no earlier than the close of business on the 120th day before such annual meeting and no later than the close of business on the later of the following two dates:

- the 90th day prior to such annual meeting; or
- the 10th day following the day on which public announcement of the date of such meeting is first made.

If a stockholder who has notified us of his or her intention to present a proposal at an annual meeting does not appear to present his or her proposal at such meeting, we are not required to present the proposal for a vote at such meeting.

Nomination of Director Candidates

You may propose director candidates for consideration by our nominating and governance committee. Any such recommendations should include the nominee's name and qualifications for membership on our board of directors and should be directed to the Corporate Secretary of Qualys, Inc. at the address set forth above. For additional information regarding stockholder recommendations for director candidates, see the section entitled "*Board of Directors and Corporate Governance—Stockholder Recommendations for Nominations to the Board of Directors*" below.

In addition, our bylaws permit stockholders to nominate directors for election at an annual meeting of stockholders. To nominate a director, the stockholder must provide the information required by our bylaws. In addition, the stockholder must give timely notice to our Corporate Secretary in accordance with our bylaws, which, in general, require that the notice be received by our Corporate Secretary within the time period described above under "*Stockholder Proposals*" for stockholder proposals that are not intended to be included in our proxy statement.

Availability of Bylaws

A copy of our bylaws is available on our website at http://investor.qualys.com. You may also contact our Corporate Secretary at our principal executive offices for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Our business affairs are managed under the direction of our board of directors, which is currently composed of eight members. Six of our directors are "independent" under the Nasdaq Stock Market listing standards. Our board of directors is divided into three staggered classes of directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the same class whose term is then expiring. Each director's term continues until the election and qualification of his successor, or his earlier death, resignation, or removal. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of our board of directors may have the effect of delaying or preventing changes in control of our company.

Philippe Courtot, a Class III director, will retire from our board of directors at the end of his current term and will not stand for reelection at the Annual Meeting. In light of Mr. Courtot's retirement, our board of directors has resolved that the authorized number of directors will be decreased from eight (8) to seven (7) effective at the Annual Meeting.

The following table sets forth the names, ages as of April 22, 2021, and certain other information for each of the nominees for election as a director and for each of the continuing members of our board of directors. Mr. Zangardi, who was appointed to the board by our other directors in June 2020, was initially suggested to our nominating and governance committee for consideration as a potential director by Philippe Courtot.

	Class	Age	Position	Director Since	Current Term Expires	Expiration of Term For Which Nominated
Nominees						
Jeffrey P. Hank (1)	III	60	Director	2010	2021	2024
Sumedh S. Thakar	III	45	Director, Interim Chief Executive Officer, President and Chief Product Officer	2021	2021	2024
Continuing Directors						
Sandra E. Bergeron (1)(2)(3)	I	61	Lead Independent Director	2006	2022	—
General Peter Pace (2)(3)	II	74	Director	2009	2023	—
Wendy M. Pfeiffer (1)	II	54	Director	2019	2023	—
Kristi M. Rogers (3)	I	50	Director	2013	2022	—
John Zangardi (2)	II	60	Director	2020	2023	—

(1) Member of the audit committee
(2) Member of the compensation committee
(3) Member of the nominating and governance committee

Information Concerning Director Nominees

Jeffrey P. Hank has served as a director of our company since January 2010. From June 2005 to July 2012, Mr. Hank was the Vice President, Chief Accounting Officer and Corporate Controller of Intuit, Inc., and Mr. Hank served as the Vice President of Finance and Chief Accounting Officer of Intuit from July 2012 until September 2013. From June 2002 until September 2003, Mr. Hank was an audit partner at KPMG LLP. From September 1994 until June 2002, Mr. Hank was an audit partner at Arthur Andersen LLP. Mr. Hank holds a Bachelor of Science degree in Business Administration from the University of California at Berkeley.

We believe that Mr. Hank possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience as an executive at a technology company and his background in the accounting industry.

Sumedh S. Thakar has served as a director of our company and as our Interim Chief Executive Officer since February 2021. Mr. Thakar has also served as our President since October 2019 and our Chief Product Officer since June 2014. From December 2010 to June 2014, Mr. Thakar served as our Vice President, Engineering. Mr. Thakar joined us in February 2003 and has held various positions with us since that time, including Principal Engineer, Engineering Manager and Director of Engineering. Mr. Thakar holds a Bachelor of Computer Science degree from the University of Pune, India.

We believe that Mr. Thakar possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience as our President and Chief Product Officer and his knowledge of our company.

Information Concerning Continuing Directors

Sandra E. Bergeron has served as a director of our company since June 2006. From 2004 until 2012, Ms. Bergeron was a venture partner at Trident Capital, Inc., a venture capital firm. Ms. Bergeron currently serves on the board of directors of F5 Networks and Sumo Logic, Inc. Ms. Bergeron previously served on the board of directors of ArcSight, Inc. until it was acquired by Hewlett-Packard Company in September 2010 and on the board of directors of Sophos Group Plc until it was acquired by a private equity firm in March 2020, and also served on the board of directors of TriCipher, Inc. from 2004 until 2010. Ms. Bergeron holds a Bachelor of Business Administration degree from Georgia State University and a Master of Business Administration degree from Xavier University.

We believe that Ms. Bergeron possesses specific attributes that qualify her to serve as a member of our board of directors, including her experience as a director of technology companies and her background in the venture capital industry.

General Peter Pace has served as a director of our company since May 2009. From June 1967 until October 2007, Gen. Pace served in the United States Marine Corps, including as Chairman of the Joint Chiefs of Staff. Since October 2007, Gen. Pace has been a principal at Pace Ventures LLC. From February 2010 until its acquisition by Court Square Capital Partners and J. Eric Pike in December 2014, Gen. Pace served on the board of directors of Pike Electric Corporation. Since January 2011, Gen. Pace has served on the board of directors of AAR Corp. From November 2012 to February 2014, Gen. Pace served on the board of directors of LaserLock Technologies, Inc. From December 2012 until its acquisition by Oracle in June 2016, Gen. Pace served on the board of directors of Textura Corp. From January 2003 to January 2011, Gen. Pace served on the board of directors of Steve Myers and Associates Inc., and from June 2010 to June 2013, Gen. Pace served on the board of directors of Wi2Wi Inc. Gen. Pace also currently serves on the boards of directors of several private companies and previously served on the President's Intelligence Advisory Board and Secretary of Defense's Defense Policy Board. Gen. Pace holds a Bachelor of Science degree from the U.S. Naval Academy and a Master of Science degree in Business Administration from The George Washington University.

We believe that Gen. Pace possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience as a director of technology and defense companies and his leadership experience.

Wendy M. Pfeiffer has served as a director of our company since August 2019. Ms. Pfeiffer has served as senior vice president and chief information officer of Nutanix, Inc., an enterprise cloud computing company, since January 2017. Previously, Ms. Pfeiffer served as chief information officer and vice president IT of GoPro, Inc., a maker of video and photo capture devices, from July 2015 to January 2017. Ms. Pfeiffer also served as senior director, IT shared services, of Robert Half International, a staffing and recruiting company, from February 2009 to June 2015. Ms. Pfeiffer holds a Bachelor of Science degree in Business Administration, Financial Accounting and Technology, from the University of Phoenix.

We believe that Ms. Pfeiffer possesses specific attributes that qualify her to serve as a member of our board of directors, including her experience serving as chief information officer at technology companies.

Kristi M. Rogers has served as a director of our company since August 2013. Ms. Rogers is currently co-founder and Managing Partner for Principal to Principal. From March 2014 to December 2016, Ms. Rogers served as Managing Director, Chief Executive Officer and member of the board of directors of Aspen Healthcare Services, LLC. From 2012 to 2014, Ms. Rogers also served on the board of directors of Aspen Medical USA. From August 2006 to January 2013, Ms. Rogers served in various positions, including Executive Vice President, President, Chief Executive Officer and Vice Chairman of the Board, at Aegis Defense Services LLC, a provider of security and support services to the U.S. government. Ms. Rogers also currently serves on the board of directors of Business Executives for National Security and is co-chair of the board of directors of Women's Foreign Policy Group, both non-profit organizations. She serves on the board of directors of NowSecure, a private company providing mobile app security. Ms. Rogers holds a Bachelor of Science degree in Political Science from Michigan State University and a Certificate for Cyber Security Risk Oversight from Carnegie Mellon University, and she graduated from Stanford's Graduate School of Business Executive Education & Corporate Governance Program.

We believe that Ms. Rogers possesses specific attributes that qualify her to serve as a member of our board of directors, including her executive experience and her expertise in the public service sector.

John Zangardi has served as a director of our company since June 2020. Dr. Zangardi has served as President of Redhorse Corporation, a technology services company delivering decision quality data to federal government customers, since June 2020. From November 2019 to May 2020, Dr. Zangardi served as Senior Vice President of Business Initiatives and Strategic Partnerships for the Civil Group at Leidos, Inc., a science, engineering and information technology company. From November 2017 to November 2019, Dr. Zangardi served as Chief Information Officer of the Department of Homeland Security, a presidentially appointed position, where he was responsible for overseeing IT and its related security and management for the Department. Prior to that, Dr. Zangardi first served as the Principal Deputy Chief Information Officer and later as the Acting Chief Information Officer of the Department of Defense, between October 2016 to November 2017. Dr. Zangardi also served as the Deputy Assistant Secretary of the Navy for Command, Control, Communications, Computers, Intelligence, Information Operations & Space from March 2011 to September 2016. A retired Naval Flight Officer, Dr. Zangardi served in a variety of command and staff assignments during his military career. Dr. Zangardi also currently serves on the board of directors of Forcepoint, a privately held software company. Dr. Zangardi holds a Bachelor of Science degree in Business Administration from the University of Scranton, a Master of Science degree in Finance from the Naval Postgraduate School, and a Doctor of Philosophy degree in Public Policy from George Mason University.

We believe that Dr. Zangardi possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience as chief information officer for departments of the federal government and his background in the U.S. military.

Director Experience Matrix

The following graphic shows the number of our directors that have experience in the areas that our board of directors believes are important to have represented on the board.

7
Strategic Planning. For oversight of management's development and implementation of strategic priorities.

4
Cybersecurity, Technology, and Information Security. For insight into key issues affecting our company.

5
Software Industry Experience. For experience with similar operational and financial models.

3
Audit/Financial Reporting. For oversight of our company's audit function and preparation of financial statements.

7
Global Perspective. For insight into the many factors involved in overseeing management of our company's global footprint.

3
Government, Public Policy, and Regulatory Affairs. For insight into the key role of regulatory issues and the government market in our sector.

4
Public Company Board Service and Corporate Governance. For knowledge of public company governance issues and policies to enhance our Board practices.

7
Risk Management. For oversight of risk management.

7
Human Capital Management and Succession Planning. For experience with managing and developing a rapidly growing employee base.

Director Independence

Our board of directors has reviewed the independence of each director. Based on information provided by each director concerning his or her background, employment and affiliations, our board of directors has determined that each of Ms. Bergeron, Mr. Hank, Gen. Pace, Ms. Pfeiffer, Ms. Rogers and Dr. Zangardi do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under the applicable rules and regulations of the SEC and the listing requirements and rules of the Nasdaq Stock Market. In making these determinations, our board of directors considered the current and prior relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock held by each non-employee director.

With respect to Gen. Pace, our board of directors specifically considered that Gen. Pace serves on the board of directors of Second Front Systems, Inc. and the terms and value of the Representative Agreement we have with Second Front Systems, Inc. Our board of directors has concluded that our relationship with Second Front Systems, Inc. is not a material relationship that would impede the exercise of independent judgment by Gen. Pace.

Leadership Structure

We do not have a policy on whether the roles of Chairperson of our board of directors and Chief Executive Officer should be separate. Our board believes it should be free to determine what is best for the Company at a given point in time. Until March 2021, Mr. Courtot served as both Chairman of the Board and our Chief Executive Officer. Mr. Courtot is currently our Chairman, but no longer serves as our Chief Executive Officer and will retire from our board of directors at the end of his current term, which expires at the Annual Meeting. Our board of directors believes that the current board leadership structure, coupled with a strong emphasis on board independence, provides effective independent oversight of management while allowing our board of directors and management to benefit from Mr. Courtot's leadership and years of experience as an executive in the technology industry. Serving on our board of directors since 2000 and as our Chief Executive Officer from 2001 to 2021, Mr. Courtot is best positioned to identify strategic priorities, lead critical discussion and execute our strategy and business plans.

Mr. Courtot possesses detailed in-depth knowledge of the issues, opportunities, and challenges facing us. Independent directors and management sometimes have different perspectives and roles in strategy development. Our independent directors bring experience, oversight and expertise from outside of our company, while Mr. Courtot brings company specific experience and expertise. Our board of directors believes that Mr. Courtot's role enables strong leadership, creates clear accountability, and enhances our ability to communicate our message and strategy clearly and consistently to stockholders. Our board of directors intends to reevaluate its leadership structure after Mr. Courtot's term expires at the Annual Meeting.

Lead Independent Director

Our board of directors has appointed Sandra E. Bergeron to serve as our lead independent director. As lead independent director, Ms. Bergeron presides over periodic meetings of our independent directors, serves as a liaison between Chairperson of our board of directors and the independent directors, and performs such additional duties as our board of directors may otherwise determine and delegate.

Board Meetings and Committees

During the year ended December 31, 2020, our board of directors held 4 meetings (including regularly scheduled and special meetings), our audit committee held 8 meetings, our compensation committee held 4 meetings, and our nominating and governance committee held 2 meetings. Each director attended at least 75% of the total number of meetings of our board of directors and the committees of which he or she was a member during 2020.

Although we do not have a formal policy regarding attendance by members of our board of directors at annual meetings of stockholders, we encourage, but do not require, directors to attend. Ms. Bergeron, Mr. Courtot, Ms. Pfeiffer and Ms. Rogers attended our 2020 annual meeting of stockholders.

Our board of directors has an audit committee, a compensation committee, and a nominating and governance committee, each of which has the composition and responsibilities described below. Members serve on these committees until their resignation or until otherwise determined by our board of directors.

Audit Committee

Our audit committee consists of Ms. Bergeron, Mr. Hank and Ms. Pfeiffer, with Mr. Hank serving as Chair. The composition of our audit committee meets the requirements for independence under current Nasdaq Stock Market listing standards and SEC rules. Each member of our audit committee meets the financial literacy requirements of the Nasdaq Stock Market listing standards. In addition, our board of directors has determined that Mr. Hank is an audit committee financial expert within the meaning of the rules and regulations of the SEC. Among other responsibilities, our audit committee:

- selects and hires a qualified firm to serve as the independent registered public accounting firm to audit our financial statements;
- helps to ensure the independence and performance of the independent registered public accounting firm;

- discusses the scope and results of the audit with the independent registered public accounting firm, and reviews, with management and the independent accountants, our interim and year-end operating results;
- oversees procedures for employees to submit concerns anonymously about questionable accounting or audit matters;
- reviews our policies on risk assessment and risk management;
- reviews related party transactions;
- obtains and reviews a report by the independent registered public accounting firm at least annually, that describes our internal quality-control procedures, any material issues with such procedures, and any steps taken to deal with such issues; and
- approves (or, as permitted, pre-approves) all audit and all permissible non-audit services, other than de minimis non-audit services, to be performed by the independent registered public accounting firm.

Our audit committee operates under a written charter that was adopted by our board of directors and satisfies the applicable rules of the SEC and the listing standards Nasdaq Stock Market. A copy of the audit committee charter is available on our website at http://investor.qualys.com.

Compensation Committee

Our compensation committee consists of Ms. Bergeron, Gen. Pace and Dr. Zangardi, with Ms. Bergeron serving as Chair. The composition of our compensation committee meets the requirements for independence under current Nasdaq Stock Market listing standards and SEC rules. Each member of our compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act. The purpose of our compensation committee is to discharge the responsibilities of our board of directors relating to the compensation of our executive officers. Among other responsibilities, our compensation committee:

- reviews, approves and determines, or makes recommendations to our board of directors regarding, the compensation of our executive officers;
- administers our stock and equity incentive plans;
- reviews and approves and makes recommendations to our board of directors regarding incentive compensation and equity plans; and
- establishes and reviews general policies relating to compensation and benefits of our employees.

Our compensation committee operates under a written charter that was adopted by our board of directors and satisfies the applicable rules of the SEC and the listing standards of the Nasdaq Stock Market. A copy of the compensation committee charter is available on our website at http://investor.qualys.com.

Nominating and Governance Committee

Our nominating and governance committee consists of Ms. Bergeron, Gen. Pace and Ms. Rogers, with Gen. Pace serving as Chair. The composition of our nominating and governance committee meets the requirements for independence under current Nasdaq Stock Market listing standards and SEC rules. Among other responsibilities, our nominating and governance committee:

- identifies, evaluates and selects, or makes recommendations to our board of directors regarding, nominees for election to our board of directors and its committees;

- evaluates the performance of our board of directors and of individual directors;
- considers and makes recommendations to our board of directors regarding the composition of our board of directors and its committees;
- reviews developments in corporate governance practices;
- evaluates the adequacy of our corporate governance practices and reporting; and
- reviews and makes recommendations to our board of directors regarding corporate governance guidelines and matters.

Our nominating and governance committee operates under a written charter that was adopted by our board of directors and satisfies the applicable rules of the SEC and the listing standards Nasdaq Stock Market. A copy of the nominating and governance committee charter is available on our website at http://investor.qualys.com.

Compensation Committee Interlocks and Insider Participation

During fiscal 2020, Sandra E. Bergeron, General Peter Pace and John Zangardi served as members of our compensation committee. None of Ms. Bergeron, Gen. Pace or Dr. Zangardi is or has been an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the compensation committee or director (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of any entity that has one or more executive officers serving on our compensation committee or our board of directors.

Considerations in Evaluating Director Nominees

Our nominating and governance committee uses a variety of methods for identifying and evaluating director nominees. In its evaluation of director candidates, our nominating and governance committee will consider the current size and composition of our board of directors and the needs of our board and its committees. Some of the qualifications that our nominating and governance committee considers include, without limitation, issues of character, integrity, judgment, diversity of experience, independence, area of expertise, corporate experience, length of service, potential conflicts of interest and other commitments. Nominees must also have the ability to offer advice and guidance to our Chief Executive Officer based on past experience in positions with a high degree of responsibility and be leaders in the companies or institutions with which they are affiliated. Director candidates must have sufficient time available in the judgment of the nominating and governance committee to perform all board of director and committee responsibilities. Members of our board of directors are expected to prepare for, attend, and participate in all board and applicable committee meetings. Other than the foregoing, there are no stated minimum criteria for director nominees, although our nominating and governance committee may also consider such other factors as it may deem, from time to time, are in our and our stockholders' best interests. Our nominating and governance committee will also seek appropriate input from our Chief Executive Officer from time to time in assessing the needs of our board of directors for relevant background, experience, diversity and skills of its members.

Although our board of directors does not maintain a specific policy with respect to board diversity, our board of directors believes that the board should be a diverse body, and our nominating and governance committee considers a broad range of backgrounds and experiences. In making determinations regarding nominations of directors, our nominating and governance committee may consider the benefits of diverse viewpoints. Our nominating and governance committee also considers these and other factors as it oversees the annual board of director and committee evaluations.

Stockholder Recommendations for Nominations to the Board of Directors

Our nominating and governance committee will consider candidates for director recommended by stockholders so long as such recommendations comply with the certificate of incorporation and bylaws of our company and applicable laws, rules and regulations, including those promulgated by the SEC. The committee will evaluate such recommendations in accordance with its charter, our bylaws and the regular nominee criteria described above. This process is designed to ensure that our board of directors includes members with diverse backgrounds, skills and experience, including appropriate financial and other expertise relevant to our business. Eligible stockholders wishing to recommend a candidate for nomination should contact our General Counsel in writing. Such recommendations must include information about the candidate, a statement of support by the recommending stockholder, evidence of the recommending stockholder's ownership of our stock and a signed letter from the candidate confirming willingness to serve on our board of directors. The committee has discretion to decide which individuals to recommend for nomination as directors.

A stockholder of record can nominate a candidate directly for election to our board of directors by complying with the procedures in Section 2.4(ii) of our bylaws. Any eligible stockholder who wishes to submit a nomination should review the requirements in the bylaws on nominations by stockholders. Any nomination should be sent in writing to Qualys, Inc., Attention: Corporate Secretary, 919 East Hillsdale Boulevard, 4th Floor, Foster City, California 94404. Notice must be received by us no earlier than February 6, 2022, and no later than March 8, 2022. The notice must state the information required by Section 2.4(ii)(b) of our bylaws and otherwise must comply with applicable federal and state law.

Stockholder Communications with the Board of Directors

Stockholders wishing to communicate with our board of directors or with an individual member of the board may do so by writing to our board of directors or to the particular member of the board, and mailing the correspondence to: Qualys, Inc., Attention: General Counsel, 919 East Hillsdale Boulevard, 4th Floor, Foster City, California 94404. All such stockholder communications will be forwarded to the appropriate member or members of our board of directors or, if none is specified, to the Chairman of our board of directors.

Corporate Governance Guidelines and Codes of Business Conduct and Ethics

Our board of directors has adopted Corporate Governance Guidelines. These guidelines address, among other items, the responsibilities of our directors, the structure and composition of our board of directors and corporate governance policies and standards applicable to us in general. In addition, our board of directors has adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers. The full text of our Corporate Governance Guidelines and Code of Business Conduct and Ethics is posted on the Corporate Governance portion of our website at http://investor.qualys.com. We will post amendments to our Code of Business Conduct and Ethics or waivers of our Code of Business Conduct and Ethics for directors and executive officers on the same website.

Risk Management

Risk is inherent with every business, and we face a number of risks, including strategic, financial, business and operational, legal and compliance, and reputational. We have designed and implemented processes to manage risk in our operations. Management is responsible for the day-to-day management of risks the company faces, while our board of directors, as a whole and assisted by its committees, has responsibility for the oversight of risk management. In its risk oversight role, our board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are appropriate and functioning as designed.

Our board of directors believes that open communication between management and our board is essential for effective risk management and oversight. Our board of directors meets with our Chief Executive Officer and other members of the senior management team at quarterly board meetings, where, among other topics, they discuss strategy and risks facing the company.

While our board of directors is ultimately responsible for risk oversight, our board committees assist our board in fulfilling its oversight responsibilities in certain areas of risk. The audit committee assists our board of directors in fulfilling its oversight responsibilities with respect to risk management in the areas of internal control over financial reporting and disclosure controls and procedures, and legal and regulatory compliance. The audit committee discusses with management and the independent auditor guidelines and policies with respect to risk assessment and risk management. The audit committee also reviews management's assessment of the key risks facing us, including the key controls it relies on to mitigate those risks. The audit committee also monitors certain key risks at each of its regularly scheduled meetings, such as risk associated with internal control over financial reporting and liquidity risk. The nominating and governance committee assists our board of directors in fulfilling its oversight responsibilities with respect to the management of risk associated with board organization, membership and structure, and corporate governance. Our compensation committee assesses risks created by the incentives inherent in our compensation programs, policies and practices and found no risks that would be reasonably likely to have a material adverse effect on the Company. Finally, the full board of directors reviews strategic and operational risk in the context of reports from the management team, receives reports on all significant committee activities at each regular meeting, and evaluates the risks inherent in significant transactions.

Non-Employee Director Compensation

2020 Director Compensation Table

The following table provides information regarding compensation paid by us to our non-employee directors during 2020. Directors who are also our employees receive no additional compensation for their service as a director. During 2020, one director, Philippe Courtot, was an employee. Mr. Courtot's compensation is discussed in the "*Executive Compensation*" section of this proxy statement. We reimburse our directors for expenses associated with attending meetings of our board of directors and meetings of committees of our board.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)(2)	Total ($)
Sandra E. Bergeron	73,000	199,386(3)	272,386
Jeffrey P. Hank	50,000	199,386(3)	249,386
Gen. Peter Pace	42,500	199,386(3)	241,886
Wendy M. Pfeiffer	38,000	199,386(3)	237,386
Kristi M. Rogers	34,000	199,386(3)	233,386
John Zangardi	19,327(4)	399,139(5)	418,466

(1) The dollar amounts reported in this column represent the grant date fair value of restricted stock unit awards granted in 2020. These amounts have been calculated in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 718. The fair value of each restricted stock unit award is measured based on the closing price of our common stock on the date of grant. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For a discussion of valuation assumptions, see the stock-based compensation note to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 22, 2021.

(2) As of December 31, 2020, the aggregate number of shares of our common stock underlying unvested stock awards and outstanding option awards held by each of our non-employee directors was:

Name	Aggregate Number of Shares Underlying Unvested Stock Awards	Aggregate Number of Shares Underlying Outstanding Option Awards
Sandra E. Bergeron	1,846	—
Jeffrey P. Hank	1,846	12,000
Gen. Peter Pace	1,846	—
Wendy M. Pfeiffer	5,056	—
Kristi M. Rogers	1,846	23,000
John Zangardi	3,871	—

(3) On June 10, 2020, each of Ms. Bergeron, Mr. Hank, Gen. Pace, Ms. Pfeiffer and Ms. Rogers was granted an award of 1,846 restricted stock units, which vest on the earlier of (i) June 10, 2021 or (ii) the day before our 2021 annual meeting of stockholders, subject to the applicable director's continued service to us.

(4) Dr. Zangardi joined our board of directors on June 12, 2020. Accordingly, this reflects a pro-rata amount for his service on our board during 2020.

(5) On June 12, 2020, Dr. Zangardi was granted an award of 3,871 restricted stock units, which vest in three equal annual installments on each of the first three anniversaries of July 1, 2020, subject to Dr. Zangardi's continued service to us.

Non-Employee Director Compensation Program

Our compensation committee is responsible for reviewing and making recommendations with respect to the compensation of our non-employee directors. Our compensation committee's policy is to engage a compensation consultant every year to conduct a full review and benchmarking (using the same peer group used to benchmark executive compensation) of our non-employee directors' compensation in order to ensure that our directors' compensation is in line with peer companies competing for director talent. Our current non-employee director compensation program was reviewed and approved in 2017 in connection with input from Compensia, an independent compensation advisor. In fiscal 2020, our compensation committee engaged Mercer as its compensation consultant. No changes have been made to our non-employee director compensation program since 2017. During 2020, our non-employee director compensation program consisted of equity and cash, as described below.

Equity Compensation

Upon joining our board of directors, each newly elected non-employee director will be granted an award of restricted stock units with an intended "value" (based on the average of the closing prices of our common stock for the 30 trading days ending one week before the applicable grant date) of $420,000 (the "Initial Award"), which may be different from the award's actual grant date fair value. An Initial Award will vest in three equal annual installments on each of the first three anniversaries of the first day of the month following the month that the director joins the board, subject to continued service as a director through each vesting date.

On the date of each annual meeting of stockholders, each non-employee director who has served on our board of directors for at least six months prior to such date will be granted an award of restricted stock units with an intended "value" (based on the average of the closing prices of our common stock for the 30 trading days ending one week before the applicable grant date) of $200,000 (the "Annual Award"), which may be different from the award's actual grant date fair value. Annual Awards will vest on the earlier of the first anniversary of its grant date or the day before the next annual meeting of stockholders, subject to continued service as a director through the applicable vesting date.

Notwithstanding the vesting schedules described above, the vesting of each Initial Award and each Annual Award will accelerate in full upon a "change in control" (as defined in our 2012 Equity Incentive Plan) of Qualys.

Cash Compensation

Our non-employee director compensation program provides that each year, each non-employee director will receive a cash retainer of $30,000 for serving on our board of directors (the "Annual Retainer"). In addition to the Annual Retainer, the lead independent director is entitled to an additional cash retainer of $19,000.

The chairpersons and members of our board's three standing committees are entitled to the following cash retainers each year:

Board Committee	Chairperson Retainer	Member Retainer
Audit Committee	$20,000	$8,000
Compensation Committee	12,000	5,000
Nominating and Governance Committee	7,500	4,000

Each non-employee director who serves as a committee chair will receive only the additional annual cash fee as the chair of the committee, and not the additional annual fee as a member of the committee. All retainers in cash are paid in four equal installments on a quarterly basis at the end of the applicable quarter, provided that the individual served as a non-employee director in the applicable capacity during the full quarter. If a director did not serve in the applicable capacity for the full quarter, retainers are pro-rated.

Hedging and Pledging Policy

We have implemented an insider trading policy that prohibits our non-employee directors and executive officers from trading in derivative securities (including hedging) with respect to our common stock, pledging company securities as collateral, or holding company securities in a margin account.

Stock Ownership Guidelines

In February 2019, we adopted stock ownership guidelines that set minimum stock ownership requirements for our non-employee directors and executive officers, in order to more closely align their interests with the long-term interests of our stockholders. Under the guidelines, each non-employee director is required to own a number of shares of our common stock with a value equal to at least five times the value of his or her annual retainer for service on our board of directors.

PROPOSAL NO. 1
ELECTION OF DIRECTORS

Number of Directors; Board Structure

Our board of directors is currently composed of eight members. Our board of directors is divided into three staggered classes of directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the same class whose term is then expiring. The term of the Class III directors expires at the Annual Meeting. The term of the Class I directors expires at the 2022 annual meeting and the term of the Class II directors expires at the 2023 annual meeting.

Mr. Courtot, a Class III director, will retire from our board of directors at the end of his current term and will not stand for reelection at the Annual Meeting. In light of Mr. Courtot's retirement, our board of directors has resolved that the authorized number of directors will be decreased from eight (8) to seven (7) effective at the Annual Meeting.

Nominees

Our nominating and governance committee has recommended, and our board of directors has approved, Jeffrey P. Hank and Sumedh Thakar as nominees for election as Class III directors at the Annual Meeting. If elected, each of Mr. Hank and Mr. Thakar will serve as Class III directors until the 2024 annual meeting of stockholders and until their successors are duly elected and qualified, subject to their earlier death, resignation, or removal. Each of the nominees is a current Class III director and member of our board of directors. For information concerning the nominees, please see "*Board of Directors and Corporate Governance*" above.

If you are a stockholder of record and you sign your proxy card or vote by telephone or over the Internet but do not give instructions with respect to the voting of directors, your shares will be voted "FOR" the election of Mr. Hank and Mr. Thakar. We expect that each of Mr. Hank and Mr. Thakar will accept such nomination; however, in the event that a director nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee designated by our board of directors to fill such vacancy. If you are a street name stockholder and you do not give voting instructions to your broker, bank, or other nominee, your broker, bank, or other nominee will leave your shares unvoted on this matter.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE NOMINEES NAMED ABOVE.

PROPOSAL NO. 2
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of our board of directors has appointed Grant Thornton LLP ("Grant Thornton"), independent registered public accountants, to audit our financial statements for the year ending December 31, 2021. Grant Thornton has audited our financial statements since 2005.

Notwithstanding its selection and even if our stockholders ratify the selection, our audit committee, in its discretion, may appoint another independent registered public accounting firm at any time during the year if the audit committee believes that such a change would be in the best interests of the company and its stockholders. At the Annual Meeting, our stockholders are being asked to ratify the appointment of Grant Thornton as our independent registered public accounting firm for the year ending December 31, 2021. Our audit committee is submitting the selection of Grant Thornton to our stockholders because we value our stockholders' views on our independent registered public accounting firm and as a matter of good corporate governance. Representatives of Grant Thornton will be present at the Annual Meeting, and they will have an opportunity to make statements and will be available to respond to appropriate questions from stockholders.

If the stockholders do not ratify the appointment of Grant Thornton, our board of directors may reconsider the appointment.

Fees Paid to the Independent Registered Public Accounting Firm

The following table presents fees for professional audit services and other services rendered to our company by Grant Thornton for the years ended December 31, 2019 and 2020.

	2019	2020
Audit Fees (1)	$1,291,901	$1,271,900
Audit-Related Fees (2)	21,054	—
	$1,312,955	$1,271,900

(1) Audit fees consist of fees for professional services provided in connection with the audit of our annual consolidated financial statements and internal control over financial reporting, review of our quarterly consolidated financial statements and audit services provided in connection with other statutory and regulatory filings.
(2) Audit-Related fees consist of fees for professional services provided in connection with the issuance of our Service Organization Control Report, which provides assurance to our customers that we have adequate controls and safeguards over the processing of their data.

Auditor Independence

In 2020, there were no other professional services provided by Grant Thornton that would have required the audit committee to consider their compatibility with maintaining the independence of Grant Thornton.

Audit Committee Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Consistent with requirements of the SEC and the Public Company Oversight Board, or PCAOB, regarding auditor independence, our audit committee is responsible for the appointment, compensation and oversight of the work of our independent registered public accounting firm. In recognition of this responsibility, our audit committee has established a policy for the pre-approval of all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services.

Before engagement of the independent registered public accounting firm for the next year's audit, the independent registered public accounting firm submits a detailed description of services expected to be rendered during that year for each of the following categories of services to the audit committee for approval:

- *Audit services*. Audit services include work performed for the audit of our financial statements and internal control over financial reporting, the review of financial statements included in our quarterly reports, as well as work that is normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings.
- *Audit-related services*. Audit-related services are for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not covered above under "audit services."
- *Tax services*. Tax services include all services performed by the independent registered public accounting firm's tax personnel for tax compliance, tax advice and tax planning.
- *Other services*. Other services are those services not described in the other categories.

The audit committee pre-approves particular services or categories of services on a case-by-case basis. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval. In those instances, the services must be pre-approved by the audit committee before the independent registered public accounting firm is engaged. Pre-approval fee levels or budgeted amounts for all services to be provided by the independent registered public accounting firm are established annually by the audit committee. Any proposed services exceeding these levels or amounts require specific pre-approval by the audit committee.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP.

PROPOSAL NO. 3
ADVISORY APPROVAL OF EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enables stockholders to approve, on an advisory or non-binding basis, the compensation of our named executive officers as disclosed pursuant to Section 14A of the Exchange Act. This proposal, commonly known as a “Say-on-Pay” proposal, gives our stockholders the opportunity to express their views on our named executive officers’ compensation as a whole. This vote is not intended to address any specific item of compensation or any specific named executive officer, but rather the overall compensation of all of our named executive officers and the philosophy, policies and practices described in this proxy statement.

The Say-on-Pay vote is advisory, and therefore is not binding on us, the compensation committee or our board of directors. The Say-on-Pay vote will, however, provide information to us regarding investor sentiment about our executive compensation philosophy, policies and practices, which the compensation committee will be able to consider when determining executive compensation for the remainder of the current fiscal year and beyond. Our board of directors and our compensation committee value the opinions of our stockholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will endeavor to communicate with stockholders to better understand the concerns that influenced the vote, consider our stockholders’ concerns and the compensation committee will evaluate whether any actions are necessary to address those concerns.

We believe that the information provided in the “*Executive Compensation*” section of this proxy statement, and in particular the information discussed in the section entitled “*Executive Compensation—Compensation Discussion and Analysis—Philosophy and Objectives*” beginning on page 37 below, demonstrates that our executive compensation program was designed appropriately and is working to ensure management’s interests are aligned with our stockholders’ interests to support long-term value creation. Accordingly, we ask our stockholders to vote “FOR” the following resolution at the Annual Meeting:

“RESOLVED, that the stockholders approve, on an advisory basis, the compensation paid to the named executive officers, as disclosed in the proxy statement for the Annual Meeting pursuant to the compensation disclosure rules of the SEC, including the compensation discussion and analysis, compensation tables and narrative discussion, and other related disclosure.”

Board Responsiveness: In addition to our ongoing dialogue with our stockholders on our strategy and value proposition, in 2020 we reached out to our top stockholders to discuss our 2020 compensation programs and other governance initiatives. These stockholders noted their support for our 2020 executive compensation. As such, we maintained the structure of our compensation program for 2021, including structuring all performance-based equity awards over a three-year period and using the free cash flow per share compound annual growth rate (CAGR) as the profitability metric for performance goals.

What we heard from stockholders	What we did
The time period for the measurement of performance-based equity awards should be at least three years	Structured all performance-based equity awards to be over a three-year period
The performance goals for our executives’ performance-based compensation should be based on free cash flow, taking into account equity dilution	Maintained profitability metric of free cash flow per share CAGR for performance goals

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL, ON AN ADVISORY BASIS, OF THE EXECUTIVE COMPENSATION AS DESCRIBED IN THIS PROXY STATEMENT.

PROPOSAL NO. 4
APPROVAL OF THE QUALYS, INC. 2021 EMPLOYEE STOCK PURCHASE PLAN AND ITS MATERIAL TERMS

Introduction

On April 19, 2021, on the recommendation of the compensation committee, our board of directors unanimously adopted the Qualys, Inc. 2021 Employee Stock Purchase Plan (the "Plan"), subject to the approval of the stockholders of the Company. The Plan is a broad-based plan that provides an opportunity for eligible employees of the Company and its designated parents, subsidiaries and affiliates to purchase shares of the Company's common stock (referred to herein as "shares") through periodic payroll deductions at a discount from the then-current market price. The Plan does not provide for discretionary grants. If approved by the Company's stockholders, a total of 600,000 shares will be made available for purchase under the Plan.

Stockholder Approval Requirement

The affirmative vote of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote on the proposal is required for approval of the Plan. Stockholders are requested in this Proposal No. 4 to approve the Plan in substantially the form attached hereto as Appendix A. If stockholders do not approve this Proposal No. 4, then the Plan will not become effective.

Approval of the Plan by the stockholders will enable the Company to offer a current market-competitive, broad-based stock purchase plan to employees of the Company and its subsidiaries and affiliates on a global basis. Our board of directors believes that the Plan is in the best interest of the Company and its stockholders because it will help us to attract, retain and reward eligible employees and strengthen the mutuality of interest between such employees and the Company's stockholders.

Key Features of the Plan

The principal features of the Plan are summarized below, but the summary is qualified in its entirety by reference to the full text of the Plan. A copy of the Plan is attached to this Proxy Statement as Appendix A, and is incorporated herein by reference. For purposes of this Proposal No. 4, "Committee" means the compensation committee of our board or any properly delegated subcommittee of the compensation committee, and "Administrator" means the Committee or, subject to applicable law, a subcommittee of the Committee or one or more of the Company's officers or management team appointed by our board of directors or the Committee to administer the day-to-day operations of the Plan.

Purpose of the Plan

The purpose of the Plan is to provide an opportunity for eligible employees of the Company and any parent, subsidiary or affiliate of the Company that has been designated by the Administrator (each, a "Designated Company") to purchase shares of the Company at a discount through voluntary contributions from such employees' eligible pay, thereby attracting, retaining and rewarding such persons and strengthening the mutuality of interest between such employees and the Company's stockholders.

The rights granted under the Plan are intended to be treated as either (i) purchase rights granted under an "employee stock purchase plan," as that term is defined in Section 423 of the Internal Revenue Code of 1986, as amended (the "Code") (*i.e.*, rights granted under a "Section 423 Offering"), or (ii) purchase rights granted under an employee stock purchase plan that is not subject to the requirements of Section 423 of the Code (*i.e.*, rights granted under a "Non-423 Offering"). The Administrator has discretion to grant purchase rights under either a Section 423 Offering or a Non-423 Offering.

Shares Subject to Plan and Adjustments upon Changes in Capitalization

A total of 600,000 of the Company's shares will be initially authorized and reserved for issuance under the Plan. Such shares may be authorized but unissued shares of common stock, treasury shares or shares of common stock purchased on the open market. Shares withheld to satisfy tax withholding obligations arising under the Plan will not reduce the number of shares available for purchase under the Plan.

In the event of any change affecting the number, class, value, or terms of the shares of common stock of the Company, resulting from a recapitalization, stock split, reverse stock split, stock dividend, spinoff, split up, combination, reclassification or exchange of shares, merger, consolidation, rights offering, separation, reorganization or liquidation or any other change in the corporate structure or shares, including any extraordinary dividend or extraordinary distribution (but excluding any regular cash dividend), then the Committee, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will, in such manner as it may deem equitable, adjust the number and class of shares that may be delivered under the Plan (including numerical limits), the purchase price per share and the number of shares covered by each purchase right under the Plan that has not yet been exercised.

Administration

The Plan will be administered by the Committee, and subject to applicable law, any authority or responsibility that may be exercised by the Committee may alternatively be exercised by the Board. To the extent not prohibited by applicable laws, the Committee may delegate its authority to a subcommittee, one or more of the other parties comprising the Administrator or other persons or groups of persons, including to assist with the day-to-day administration of the Plan. The Administrator will have, among other authority, the authority to interpret, reconcile any inconsistency in, correct any default in and apply the terms of the Plan, to determine eligibility and adjudicate disputed claims under the Plan, to determine the terms and conditions of purchase rights under the Plan, to establish, amend, suspend or waive such rules and regulations and appoint such agents as it deems appropriate for the proper administration of the Plan, to amend an outstanding right to purchase shares, and to make any other determination and take any other action desirable for the administration of the Plan. For purchase rights granted under a Section 423 Offering, the Administrator is authorized to adopt such rules and regulations for administering the Plan as it may deem necessary to comply with the requirements of Section 423 of the Code.

Non-U.S. Sub-Plans

The Administrator will also have the authority to adopt such sub-plans as are necessary or appropriate to permit the participation in the Plan by employees who are foreign nationals or employed outside of the U.S. Such sub-plans may vary the terms of the Plan, other than with respect to the number of shares reserved for issuance under the Plan, to accommodate the requirements of local laws, customs and procedures for non-U.S. jurisdictions. For this purpose, the Administrator is authorized to adopt sub-plans for non-U.S. jurisdictions that vary the terms of the Plan regarding, without limitation, eligibility to participate, the definition of eligible pay, the dates and duration of offering periods or other periods during which participants may make contributions towards the purchase of shares, the method of determining the purchase price and the discount at which shares may be purchased, any minimum or maximum amount of contributions a participant may make in an offering period or other specified period under the applicable sub-plan, the handling of payroll deductions and the methods for making contributions by means other than payroll deductions, the treatment of purchase rights upon a corporate transaction (as defined in the Plan) or a change in capitalization of the Company, the establishment of bank, building society or trust accounts to hold contributions, the payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of share issuances.

Eligibility

Generally, any individual in an employee-employer relationship with the Company or a Designated Company is eligible to participate in the Plan and may participate by completing the online enrollment process or other procedures specified by the Administrator. As of April 12, 2021, approximately 1,564 employees, including all executive officers, were eligible to participate in the Plan.

However, the Administrator, in its discretion, may determine on a uniform basis for an offering that employees will not be eligible to participate if they: (i) have not completed at least two years of service since their last hire date (or such lesser period of time determined by the Administrator), (ii) customarily work not more than 20 hours per week (or such lesser period of time determined by the Administrator), (iii) customarily work not more than five months per calendar year (or such lesser period of time determined by the Administrator), (iv) are highly compensated employees within the meaning of Section 414(q) of the Code, or (v) are highly compensated employees within the meaning of Section 414(q) of the Code with compensation above a certain level or who are officers subject to the disclosure requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended.

No employee is eligible for the grant of any purchase rights under the Plan if, immediately after such grant, the employee would own shares possessing 5% or more of the total combined voting power or value of all classes of shares of the Company or of any subsidiary or parent of the Company (including any shares which such employee may purchase under all outstanding purchase rights), nor will any employee be granted purchase rights to buy more than $25,000 worth of shares (determined based on the fair market value of the shares on the date the purchase rights are granted) under the Plan in any calendar year such purchase rights are outstanding.

Eligible employees who are citizens or residents of a jurisdiction outside the U.S. may be excluded from participation in the Plan if their participation is prohibited under local laws or if complying with local laws would cause the Plan or a Section 423 Offering to violate Section 423 of the Code. In the case of a Non-423 Offering, eligible employees may be excluded from participation in the Plan or an offering if the Administrator has determined that participation of such eligible employees is not advisable or practicable for any reason.

Offering Periods

The Plan will be implemented by consecutive or overlapping offering periods, as specified by the Administrator, with a new offering period commencing on the first trading day of the relevant offering period and terminating on the last trading day of the relevant offering period. The Administrator will specify prior to the scheduled beginning of the applicable Offering Period (which may not have a duration exceeding 27 months): (i) the length of the Offering Period, (ii) the number of Purchase Periods that will be contained in an Offering Period, (iii) the length of each Purchase Period, and (iv) the dates on which an Offering Period and Purchase Period will commence and conclude.

The Administrator has the authority to establish the terms that will apply to the offering periods in accordance with the provisions described in the paragraph above without stockholder approval.

Additionally, to the extent that the Administrator establishes an offering period with multiple purchase periods or overlapping offering periods, the Administrator will have discretion to structure an offering period so that if the fair market value of a share on the first trading day of the offering period in which a participant is currently enrolled is higher than the fair market value of a share on the first trading day of any subsequent offering period, the Company will automatically enroll the participant in the subsequent offering period and will terminate his or her participation in the original offering period.

Payroll Deductions

Except as otherwise provided by the Administrator, up to a maximum of 15% of a participant's "eligible pay" (as defined in the Plan) may be contributed by payroll deductions or other payments that the Administrator may permit a participant to make toward the purchase of shares during each purchase period. Once an eligible employee elects to participate in an offering period, then the participant will automatically participate in subsequent offering periods at the same contribution rate as was in effect in the prior offering period unless the participant elects to increase or decrease the contribution rate with respect to a subsequent offering period or withdraw, or is deemed to withdraw, from this Plan. A participant who is automatically enrolled in a subsequent offering period is not required to file any additional documentation in order to continue participation; provided, however, that participation in the subsequent offering period will be governed by the terms and conditions of the Plan in effect at the beginning of such offering period, subject to the participant's right to withdraw from the Plan. A participant may elect to increase or decrease the rate of such contributions during any subsequent enrollment period, and any such new rate of contribution will become effective on the first day of the first purchase period following the completion of such form. Unless otherwise determined by the Administrator, during a purchase period, a participant may not increase or decrease contributions, except as follows. A participant may reduce the rate of his or her contributions to zero percent (0%) at any time during the purchase period, provided that any such reduction will result in the automatic withdrawal of the participant from the Plan, and the participant will not be eligible to participate in the Plan again until the next enrollment period.

Purchase Price

Unless otherwise determined by the Administrator prior to the commencement of an offering period and subject to adjustment in the event of certain changes in our capitalization, the purchase price per share at which shares are sold in an offering period under the Plan will not be less than 85% of the lesser of (i) the fair market value of the shares on the first trading day of the offering period, or (ii) the fair market value of the shares on the purchase date (*i.e.*, the last trading day of the purchase period). The Administrator has authority to establish a different purchase price for any Section 423 Offering or Non-423 Offering, provided that the purchase price applicable to a Section 423 Offering complies with the provisions of Section 423 of the Code. As of April 12, 2021, the closing price of a share of our common stock on the Nasdaq Global Select Market was $105.48.

Purchase of Shares

Each purchase right will be automatically exercised on the applicable purchase date, and shares will be purchased on behalf of each participant by applying the participant's contributions for the applicable purchase period to the purchase of shares at the purchase price in effect for that purchase date.

The maximum number of shares purchasable per participant during any single offering period may not exceed 500 shares (or such other limit as may be imposed by the Administrator), subject to adjustment in the event of certain changes in our capitalization.

Any amount remaining in a participant's account that was not applied to the purchase of shares because it was insufficient to purchase a whole share will be carried forward for the purchase of shares during the following offering period. However, any amounts not applied to the purchase of shares during an offering period for any reason other than as described above will not be carried forward to any subsequent offering periods, and will instead by refunded, without interest, as soon as practicable after the purchase date, except as otherwise determined by the Administrator or required by applicable law.

Transferability

Purchase rights granted under the Plan are not transferable by a participant other than by will or by the laws of descent and distribution, and are exercisable during the participant's lifetime only by the participant.

Withdrawals

A participant may withdraw from an offering period and receive a refund of contributions by submitting a notice of withdrawal, which must be received no later than the last day of the month immediately preceding the month of the purchase date or by such other deadline as may be prescribed by the Administrator. Upon receipt of such notice, deductions of contributions on behalf of the participant will be discontinued commencing with the payroll period immediately following the effective date of the notice of withdrawal, and such participant will not be eligible to participate in the Plan until the next enrollment period. Amounts credited to the account of any participant who withdraws from an offering period, according to the procedures set forth in the Plan, within the time period prescribed by the Administrator will be refunded as soon as practicable, without interest, except as otherwise determined by the Administrator or required by applicable law.

Termination of Employment; Leave of Absence

If a participant ceases to be an eligible employee prior to a purchase date, contributions for the participant will be discontinued and any amounts credited to the participant's account will be refunded as soon as practicable, without interest, except as otherwise provided by the Administrator or required by applicable law.

Subject to the discretion of the Administrator, if a participant is granted a paid leave of absence, the participant's payroll deductions will continue and amounts credited to the participant's account may be used to purchase shares as provided under the Plan. If a participant is granted an unpaid leave of absence, the participant's payroll deductions will be discontinued and no other contributions will be permitted (unless otherwise determined by the Administrator on a uniform and nondiscriminatory basis for Section 423 Offerings or required by applicable law), but any amounts credited to the participant's account may be used to purchase shares on the next applicable purchase date. Where the period of leave exceeds three months and the participant's right to reemployment is not guaranteed by statute or by contract, for purposes of the Section 423 Offerings, the employment relationship will generally be deemed to have terminated three months and one day following the commencement of such leave.

Unless otherwise determined by the Administrator or required by applicable law, a participant whose employment transfers or whose employment terminates with an immediate rehire (with no break in service) by or between the Company and a Designated Company will not be treated as having terminated employment for purposes of participating in the Plan or an offering. However, if a participant transfers from a Section 423 Offering to a Non-423 Offering, the exercise of the participant's purchase right will be qualified under the Section 423 Offering only to the extent that such exercise complies with Section 423 of the Code. If a Participant transfers from a Non-423 Offering to a Section 423 Offering, the exercise of the Participant’s purchase right will remain non-qualified under the Non-423 Offering. The Administrator may establish additional or different rules to govern transfers of employment for purposes of participation in the Plan or an offering, consistent with the applicable requirements of Section 423 of the Code.

Corporate Transaction

In the event of a “Corporate Transaction” (as defined in the Plan), each outstanding purchase right will be equitably adjusted and assumed or an equivalent purchase right substituted by the successor company or a parent or subsidiary of such successor corporation. In the event that the successor corporation refuses to assume or substitute the purchase right or is not a publicly traded corporation, the offering period then in progress will be shortened by setting a new purchase date before the date of the proposed Corporate Transaction, as of which date the offering period will end.

Term of the Plan; Amendment and Termination of Plan

The Plan will become effective upon its approval by the stockholders of the Company and will continue in effect until its expiration on the tenth anniversary thereof, unless terminated earlier by the Board, as described below. Any offering periods that are outstanding as of the expiration of the Plan will continue in effect in accordance with their terms through the final Purchase Period in the outstanding Offering Period.

The Board or the Committee may amend the Plan at any time, provided that if stockholder approval is required pursuant to the Code, securities laws or regulations, or the rules or regulations of the securities exchange on which the Company’s shares are listed or traded, then no such amendment will be effective unless approved by the Company’s stockholders within such time period as may be required. The Board may suspend the Plan or discontinue the Plan at any time, including shortening an offering period in connection with a spin-off or similar corporate event. Upon termination of the Plan, all contributions will cease, all amounts credited to a participant’s account will be equitably applied to the purchase of whole shares then available for sale, and any remaining amounts will be promptly refunded, without interest (unless required by applicable law), to the participants.

U.S. Federal Income Tax Information

The following summary briefly describes the general U.S. federal income tax consequences of purchase rights under the Plan for participants who are tax resident in the U.S., current as of April 12, 2021, but is not a detailed or complete description of all U.S. federal tax laws or regulations that may apply, and does not address any local, state or other country laws. **Therefore, no one should rely on this summary for individual tax compliance, planning or decisions. Participants in the Plan should consult their own professional tax advisors regarding the taxation of purchase rights under the Plan. The discussion below concerning tax deductions that may become available to the Company under U.S. federal tax law is not intended to imply that the Company will necessarily obtain a tax benefit or asset from those deductions. Taxation of equity-based payments in countries other than the U.S. does not generally correspond to U.S. federal tax laws, and is not covered by the summary below.**

U.S. Federal Income Tax Information for Section 423 Offerings

Rights to purchase shares granted under a Section 423 Offering are intended to qualify for favorable federal income tax treatment available to purchase rights granted under an employee stock purchase plan that qualifies under the provisions of Section 423(b) of the Code. Under these provisions, no income will be taxable to a participant until the shares purchased under the Plan are sold or otherwise disposed of. If the shares are disposed of within two years from the purchase right grant date (*i.e.*, the beginning of the offering period) or within one year from the purchase date of the shares, a transaction referred to as a “disqualifying disposition,” the participant will realize ordinary income in the year of such disposition equal to the difference between the fair market value of the shares on the purchase date and the purchase price. The amount of such ordinary income will be added to the participant’s basis in the shares, and any additional gain or resulting loss recognized on the disposition of the shares after such basis adjustment will be a capital gain or loss. A capital gain or loss will be long-term if the participant holds the shares for more than one year after the purchase date.

If the shares purchased under the Plan are sold (or otherwise disposed of) more than two years after the purchase right grant date and more than one year after the shares are transferred to the participant, then the lesser of (i) the excess of the sale price of the shares at the time of disposition over the purchase price, and (ii) the excess of the fair market value of the shares as of the purchase right grant date over the purchase price (determined as of the first day of the offering period) will be treated as ordinary income. If the sale price is less than the purchase price, no ordinary income will be reported. The amount of any such ordinary income will be added to the participant’s basis in the shares, and any additional gain or resulting loss recognized on the disposition of the shares after such basis adjustment will be long-term capital gain or loss.

The Company (or applicable Designated Company) generally will be entitled to a deduction in the year of a disqualifying disposition equal to the amount of ordinary income realized by the participant as a result of such disposition, subject to any applicable limitations under the Code. In other cases, no deduction is allowed.

U.S. Federal Income Tax Information for Non-423 Offerings

If the purchase right is granted under a Non-423 Offering, then the amount equal to the difference between the fair market value of the shares on the purchase date and the purchase price will be treated as ordinary income at the time of such purchase. In such instances, the amount of such ordinary income will be added to the participant’s basis in the shares, and any additional gain or resulting loss recognized on the disposition of the shares after such basis adjustment will be a capital gain or loss. A capital gain or loss will be long-term if the participant holds the shares for more than one year after the purchase date.

The Company (or applicable Designated Company) generally will be entitled to a deduction in the year of purchase equal to the amount of ordinary income recognized by the participant as a result of such disposition, subject to any applicable limitations under the Code. For U.S. participants, FICA/FUTA taxes will generally be due in relation to ordinary income earned as a result of participation in a Non-423 Offering.

New Plan Benefits

The benefits to be received pursuant to the Plan by the Company’s officers and employees are not currently determinable as they will depend on the purchase price of our shares in offering periods after the implementation of the Plan, the market value of our common stock on various future dates, the amount of contributions that eligible officers and employees elect to make under the Plan and similar factors. As of the date of this Proxy Statement, no officer or employee has been granted any purchase rights under the proposed Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” APPROVAL OF THE QUALYS, INC. 2021 EMPLOYEE STOCK PURCHASE PLAN AND ITS MATERIAL TERMS.

REPORT OF THE AUDIT COMMITTEE

The audit committee is a committee of our board of directors comprised solely of independent directors as required by the listing standards of the Nasdaq Stock Market and rules of the SEC. The audit committee operates under a written charter approved by our board of directors, which is available on our website at http://investor.qualys.com. The composition of the audit committee, the attributes of its members and the responsibilities of the audit committee, as reflected in its charter, are intended to be in accordance with applicable requirements for corporate audit committees. The audit committee reviews and assesses the adequacy of its charter and the audit committee's performance on an annual basis.

With respect to the financial reporting process of the Company, the management of the Company is responsible for (1) establishing and maintaining internal controls and (2) preparing the Company's consolidated financial statements. Grant Thornton LLP ("Grant Thornton") is responsible for auditing these financial statements. It is the responsibility of the audit committee to oversee these activities. It is not the responsibility of the audit committee to prepare or certify our financial statements or guarantee the audits or reports of Grant Thornton. These are the fundamental responsibilities of management and Grant Thornton. In the performance of its oversight function, the audit committee has:

- reviewed and discussed the audited financial statements with management and Grant Thornton;
- discussed with Grant Thornton the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board ("PCAOB") and the Securities and Exchange Commission; and
- received the written disclosures and the letter from Grant Thornton required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with Grant Thornton its independence.

Based on the audit committee's review and discussions with management and Grant Thornton, the audit committee recommended to our board of directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for filing with the Securities and Exchange Commission.

Respectfully submitted by the members of the audit committee of the board of directors:

Jeffrey P. Hank (Chair)
Sandra E. Bergeron
Wendy M. Pfeiffer

CORPORATE SOCIAL RESPONSIBILITY

We are a pioneer and leading provider of a cloud-based platform delivering information technology (IT), security and compliance solutions. Our integrated suite of IT, security and compliance solutions delivered on our Qualys Cloud Platform enables our customers to: (1) identify and manage their IT assets across on-premises, endpoints, cloud, containers, and mobile environments; (2) collect and analyze large amounts of IT security data; (3) discover and prioritize vulnerabilities; (4) recommend and implement remediation actions; and (5) verify the implementation of such actions. This helps organizations protect their systems and applications from ever-evolving cyber-attacks and helps achieve compliance with internal policies and external regulations. Doing the right thing for our people, our communities and our environment engenders the trust of our customers, partners, employees and stockholders, enabling us to grow our business profitably and meet the diverse needs of our constituents. By engaging with our stockholders, we have demonstrated a growing trend toward more explicit integration of environmental and social factors into the investment process. Our board of directors believes that oversight of environmental, social and governance issues is a key responsibility of the entire board.

Environment and Sustainability

Qualys products, delivered via our multi-tenant cloud platform, are also sustainability-enabling for our customers. Our cloud-based solutions minimize the number of physical servers our customers have to deploy within their own environments, reducing energy consumption on their end. Qualys Cloud Apps, delivering rich content and dashboards visible on any device, also reduce paper and printing costs for our customers.

We also strongly believe in encouraging organizations to continually work toward improving their security posture. For the benefit of the community, in 2019 Qualys launched its Global IT Asset Discovery & Inventory application as a free service, which provides real-time visibility of known and unknown assets across a company's global hybrid IT footprint. You cannot secure what you cannot see or do not know and, therefore, this free product enables all organizations to have a complete view of their managed and unmanaged assets across their entire IT infrastructure. We recognize that a healthy environment and safe workplaces are critical to our business, strategy and communities. We address environmental issues in an integrated manner to encompass protection of the environment as well as the health and safety of our workforce. For example, in response to the Coronavirus and the significant increases in remote workforces in March 2020, we released a free cloud-based remote endpoint protection solution for 60 days that allows IT and security teams to protect the computers of remote employees.

The environmental, health and safety systems, processes and tools in place across our footprint also enable us to meet or exceed governmental and industry requirements. We strive to build and operate energy-efficient networks and data centers as well as pursue sustainability initiatives that reduce energy, waste and materials consumption. We engage our employees and suppliers in our sustainability efforts.

We are committed to advancing supply chain responsibility and strive to enhance transparency and promote greater accountability in our own operations and with our suppliers. Qualys outsources product manufacturing and recycling to suppliers and vendors that follow the highest environmental standards in the industry, such as ISO 14001. We also prohibit our suppliers from profiting from the sale of tantalum, tin, tungsten, and gold (also known as "conflict minerals") that funds conflict in the Democratic Republic of the Congo (DRC) and adjoining countries, and we require that our suppliers source these minerals from socially responsible suppliers.

Social

We are proud to be a leader in the promotion and practice of diversity and inclusion, and our compensation committee oversees our human capital management practices. We take a holistic approach to our social strategy, striving to create a culture where talented people want to come to work, develop their careers, become leaders, and make a difference for all our stakeholders and communities. In March 2020, due to the outbreak of COVID-19, we mandated a work from home policy to protect our employees and our communities.

Our board is comprised of 57% gender and ethnically diverse directors, which is a result of a concerted effort by the board's nominating and governance committee to identify strong candidates who provide a wide range of perspectives, competencies and knowledge to complement the board's skills, diversity and experiences. Additionally, we are committed to working to ensure that no modern slavery or human trafficking is associated with our supply chains or with any part of our business. As part of our efforts, we participate in the following activities: (1) review procurement documentation to ensure it includes a requirement, as necessary, for our suppliers to confirm that they are not involved in modern slavery or human trafficking; (2) work to ensure that new suppliers declare that they are not involved in modern slavery or human trafficking; and (3) review our policies and training efforts to account for the requirements of the Modern Slavery Act of 2015.

Governance

We are committed to maintaining a strong corporate governance program that complies with all requirements, reflects best practices and continues to evolve as new expectations and opportunities emerge. Notable highlights include:

- Our board of directors acts in the best interest of our company and our stockholders, and meets or exceeds evolving regulatory, stockholder, business and other requirements. Our board operates under Corporate Governance Guidelines, which together with board committee charters and our certificate of incorporation and bylaws, constitute the primary structure for governance of our company;
- Six of our eight board members are independent;
- Our board has three committees – audit, compensation, and nominating and governance – which are responsible for overseeing key strategy areas for us. Each committee's responsibilities are clearly outlined in their respective charter documents; and
- Our Code of Business Conduct and Ethics applies to all directors, officers, employees of Qualys and its subsidiaries. Agents and contractors of Qualys are also expected to read, understand and abide by this code.

EXECUTIVE OFFICERS

The following table identifies certain information about our executive officers as of April 22, 2021. Officers are elected by our board of directors to hold office until their successors are elected and qualified.

Name	Age	Position
Sumedh S. Thakar	45	Director, Interim Chief Executive Officer, President and Chief Product Officer
Joo Mi Kim	40	Chief Financial Officer
Bruce K. Posey	69	Vice President, General Counsel and Corporate Secretary

Sumedh S. Thakar is also a director of our company. Please see the section titled "*Board of Directors and Corporate Governance*" for his biography.

Joo Mi Kim has served as our Chief Financial Officer since June 2020. Ms. Kim rejoined us from Impact, a partnership automation technology company, where she served as Chief Financial Officer from September 2019 to June 2020. Ms. Kim previously served as Chief Financial Officer of Aera Technology, an enterprise cognitive technology company, from June 2018 to July 2019, and as Vice President, FP&A, Investor Relations and Operations at Qualys from June 2016 to June 2018. From July 2015 to June 2016, Ms. Kim was Senior Director of Finance at Zynga, a social gaming company. From 2014 to 2015, she was Director of Finance at Anaplan, a planning and performance management platform provider, and from 2012 to 2014, she was Vice President, Finance and Corporate Operations at mLab. Earlier in her career, Ms. Kim was an associate at Foros, an investment bank, from 2009 to 2012, and at J.P. Morgan from 2008 to 2009. Ms. Kim began her career as an economic consultant at Ernst & Young from 2003 to 2006. Ms. Kim holds a B.A. in Economics from the University of Chicago and an M.B.A. from the Wharton School of the University of Pennsylvania.

Bruce K. Posey has served as our Vice President and General Counsel since May 2012 and has been our Corporate Secretary since June 2012. From December 2011 to May 2012, Mr. Posey served as Senior Vice President, General Counsel and Corporate Secretary of IntelePeer, Inc. From January 2009 to December 2011, Mr. Posey served as Senior Vice President, General Counsel and Corporate Secretary at Openwave Systems, Inc. From July 2002 to January 2009, Mr. Posey served as Senior Vice President, General Counsel and Corporate Secretary at iPass. Mr. Posey holds a Bachelor of Science degree from the University of Oregon and a Juris Doctor degree from the University of Michigan Law School.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis provides an overview of the material components of our executive compensation program. The following executive officers are collectively referred to in this Compensation Discussion and Analysis and the accompanying compensation tables as the "named executive officers":

Name	Position
Philippe F. Courtot (1)	Chairman and Former Chief Executive Officer ("CEO")
Sumedh S. Thakar (2)	Director, Interim Chief Executive Officer, President and Chief Product Officer
Joo Mi Kim (3)	Chief Financial Officer
Bruce K. Posey	Vice President, General Counsel and Corporate Secretary
Melissa B. Fisher (4)	Former Chief Financial Officer

(1) Mr. Courtot served as our CEO for all of 2020. Mr. Courtot took a leave of absence beginning in February 2021 due to health issues unrelated to COVID-19, and resigned as our CEO in March 2021 due to such health issues. He will retire from our board of directors and not stand for reelection at the Annual Meeting.
(2) Mr. Thakar was appointed to our board of directors and as our Interim Chief Executive Officer, effective February 7, 2021, in conjunction with Mr. Courtot taking a leave of absence.
(3) Ms. Kim was appointed as our Chief Financial Officer, effective June 29, 2020.
(4) Ms. Fisher resigned from her position with us, effective May 29, 2020.

Overview

Business Highlights

We are a pioneer and leading provider of cloud-based platform delivering information technology (IT), security and compliance solutions that enable organizations to identify security risks to their IT infrastructures, help protect their IT systems and applications from ever-evolving cyber-attacks and achieve compliance with internal policies and external regulations. Our cloud solutions address the growing IT, security and compliance complexities and risks that are amplified by the dissolving boundaries between internal and external IT infrastructures and web environments, the rapid adoption of cloud computing, containers and serverless IT models, and the proliferation of geographically dispersed IT assets.

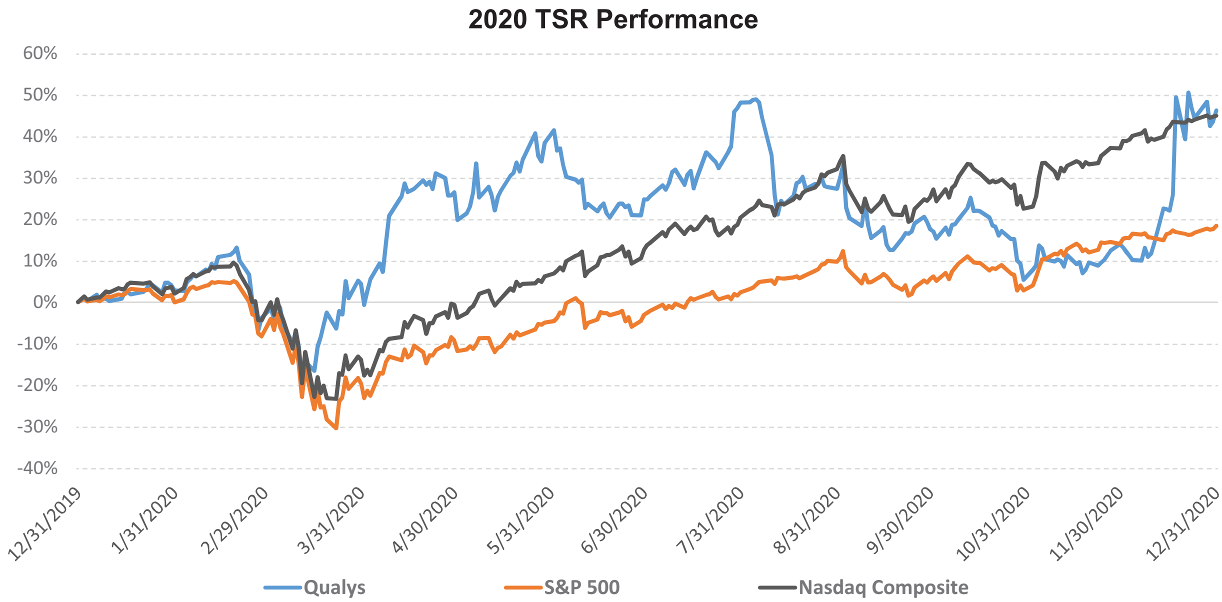
IT infrastructures are more complex and globally-distributed today than ever before, as organizations of all sizes increasingly rely upon a myriad of interconnected information systems and related IT assets, such as servers, databases, web applications, routers, switches, desktops, laptops, other physical and virtual infrastructure, and numerous external networks and cloud services. The predominant approach to IT security has been to implement multiple disparate security products that can be costly and difficult to deploy, integrate and manage and may not adequately protect organizations. As a result, we believe there is a large and growing opportunity for comprehensive cloud-based IT, security and compliance solutions delivered in a single platform.

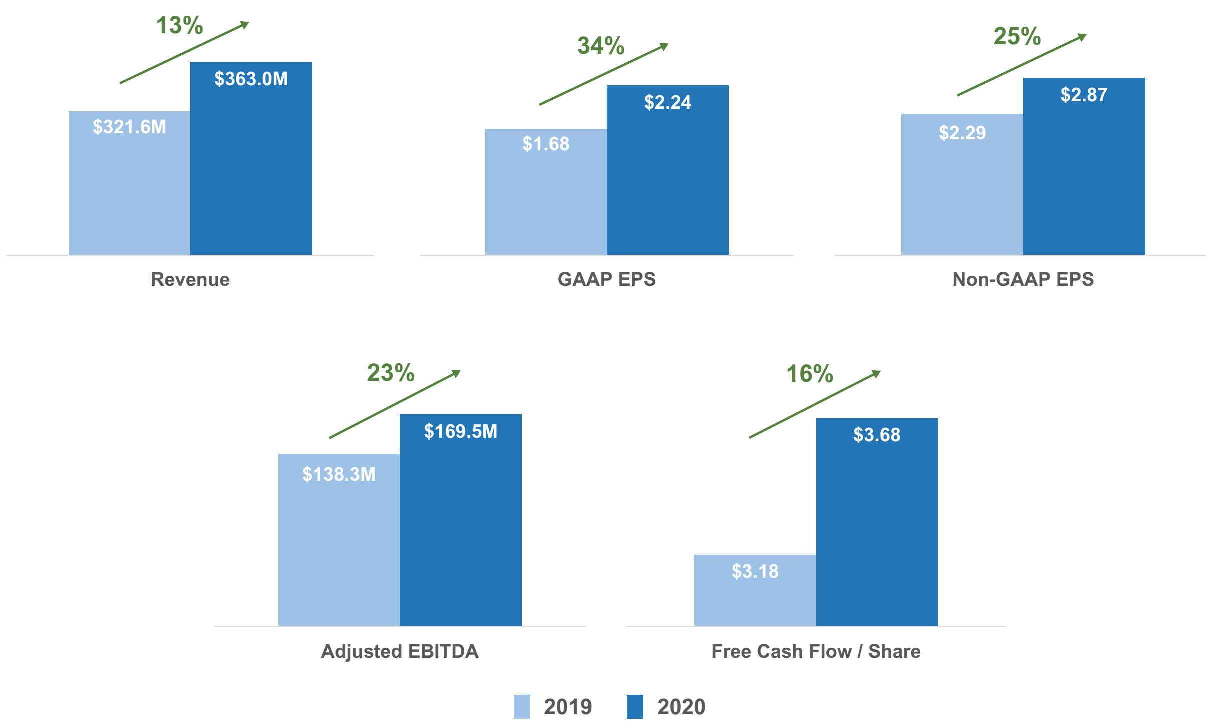
We intend to leverage our innovation, extensive expertise and position as a trusted provider of cloud-based IT, security and compliance solutions to continue to grow our revenues and maintain strong profitability. In 2020, we continued our business momentum and improved our financial performance despite the impacts of the COVID-19 pandemic, as set forth in the bullets and graphics below:

- Revenues increased by 13% to $363.0 million, as compared to $321.6 million in 2019;
- EPS increased by 34% to $2.24, as compared to $1.68 in 2019;
- Non-GAAP EPS* increased by 25% to $2.87, as compared to $2.29 in 2019;

- Adjusted EBITDA* (a non-GAAP financial measure) increased by 23% to $169.5 million, which represents 47% of our 2020 revenues, as compared to $138.3 million in 2019, which represents 43% of our 2019 revenues; and
- Free cash flow per share* (a non-GAAP financial measure) increased by 16% to $3.68, as compared to $3.18 in 2019.

* Appendix B contains a reconciliation of these non-GAAP financial measures to their most directly comparable GAAP measures.





Consistent with our pay-for-performance philosophy, our non-equity incentive plan pays cash compensation based on achievement of bookings, revenue growth and non-GAAP EPS. The compensation committee selected these three metrics, which measure sales growth and profitability, as the corporate performance metrics that best support our annual operating plan and enhanced long-term value creation. In 2020, the non-equity incentive plan paid out at approximately 98.7% of target; we met or exceeded all of the performance targets, except for the bookings growth target for the first quarter.

Good Pay and Governance Practices

We maintain the following good executive pay and corporate governance policies and practices:

What we do ✓

- ✓ *We balance near- and long-term strategic objectives by providing a mix of cash and equity incentives*
- ✓ *We have caps on all executive non-equity incentive awards*
- ✓ *A substantial portion of our CEO's equity awards is performance-based equity and the shares underlying the performance-based equity awards must be held (net of taxes) for three years from the award's grant date (i.e., until all performance periods have concluded)*
- ✓ *We audit our incentive plan processes, results, and payments on a regular basis*
- ✓ *We hold an annual stockholder advisory vote to approve our named executive officers' compensation and we engage with stockholders and respond to their feedback on our executive compensation programs*
- ✓ *We adopted stock ownership guidelines for our non-employee directors and executive officers*
- ✓ *We adopted a clawback policy for our former and current executive officers*
- ✓ *We prohibit hedging and pledging of our common stock by all directors, officers, employees and agents (such as consultants and independent contractors) of the company as well as related parties*
- ✓ *Our compensation committee is made up solely of independent directors and makes all executive compensation decisions*
- ✓ *We review our compensation committee charter on a regular basis*

What we are not doing X

- × *We do not offer material tax gross-ups to any of our named executive officers*
- × *We do not pay dividends on unvested equity awards*
- × *We do not offer special executive retirement plans to our named executive officers or other executives*
- × *We do not guarantee salary increases for our named executive officers*

Philosophy and Objectives

Our compensation philosophy is to provide programs that attract and retain the best available personnel for positions of substantial responsibility, provide incentives for such persons to perform to the best of their abilities, and promote the success of our business. The following table identifies the main elements of our executive compensation program and the reason we chose to provide each element:

Element of Compensation	Basis for Providing Element
Base Salary	To provide compensation to our named executive officers for services based on their experience and past performance
Non-Equity Incentive Plan Compensation	To motivate and reward our named executive officers for focusing on individual and company objectives that drive increased stockholder value
Equity Compensation	To align our named executive officers' interests with the long-term interests of our stockholders and to promote the retention of our named executive officers
Non-Cash and Non-Equity Benefits	To provide for the safety and wellness of our named executive officers
Change in Control and Severance Payments and Benefits	To promote the retention of our named executive officers

Overview of Stockholder Engagement Process

Engagement Prior to Annual Meeting

- Seek feedback on matters for stockholder consideration
- Publish annual report and proxy statement, highlighting recent Board and Company activities

Annual Meeting

- Provide environment for direct engagement among Board members, senior management, and stockholders
- Opportunity for stockholders to ask questions about the Company
- Determine voting results for management and stockholder proposals

Post Annual Meeting

- Discuss vote outcomes in light of existing practices, as well as feedback received from stockholders during the proxy season
- Review corporate governance trends, recent regulatory developments and the Company's own corporate governance documents, policies and procedures
- Determine topics for discussion during off-season stockholder engagement

Off-Season Engagement and Evaluation of Best Practices

- Engage with stockholders and other stakeholders to better understand their viewpoints and inform discussions in the boardroom
- Evaluate potential changes to environmental, social, governance and executive compensation practices in light of stockholder feedback and review of practices

Stockholder Engagement and Advisory Vote on Executive Compensation

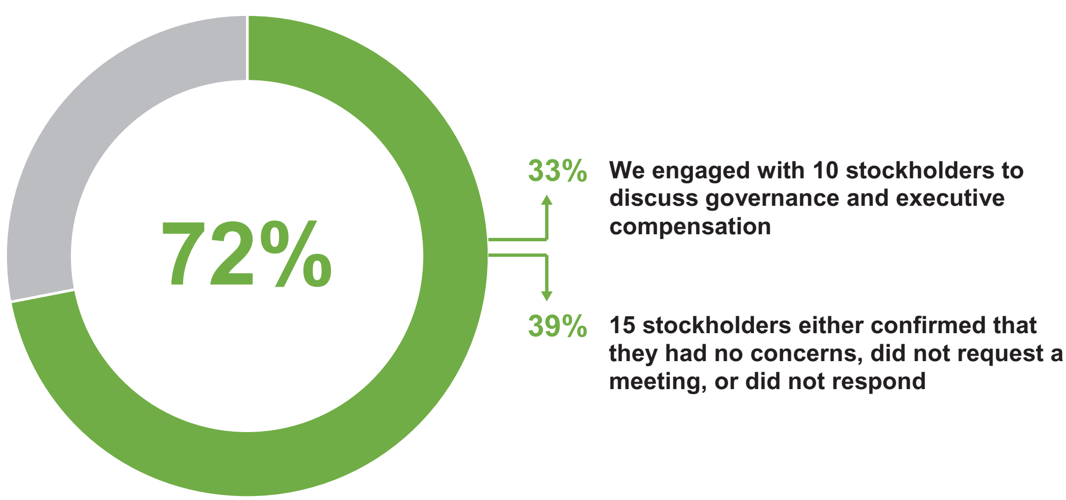
Our compensation committee considers the results of the annual stockholder advisory vote on the compensation of our named executive officers (“Say on Pay”) and stockholder feedback on our executive compensation program as part of its annual executive compensation review. In 2020, our Say on Pay proposal received 96% support and we continued to reach out to our stockholders to discuss our compensation programs. Based on this strong stockholder support and the positive feedback we received during our stockholder outreach, our compensation committee determined to maintain the parameters of our existing executive compensation program and policies. However, we continue to incorporate stockholder feedback into our compensation structure, as noted in the table below.

Board Responsiveness: Below is a summary of feedback we received from our stockholders during our 2020 outreach and the Board’s response.

What we heard from stockholders	What we did
The time period for the measurement of performance-based equity awards should be at least three years	Structured all performance-based equity awards to be over a three-year period
The performance goals for our executives’ performance-based compensation should be based on free cash flow, taking into account equity dilution	Maintained profitability metric of free cash flow per share compound annual growth rate (CAGR) for performance goals

In addition to our ongoing dialogue with our stockholders on our strategy and value proposition, in 2021 we reached out to our top 25 stockholders to discuss our 2021 compensation programs and other governance initiatives. These top 25 stockholders held approximately 62% of our outstanding stock (or 72% excluding stock held by Mr. Courtot) as of December 31, 2020. In 2021, we engaged with 10 stockholders (who held approximately 29% of our outstanding stock (or 33% excluding stock held by Mr. Courtot) as of December 31, 2020). These stockholders noted their support for our 2021 executive compensation.

Our outreach included 25 stockholders, who held 72% of our outstanding stock (excluding shares held by Philippe Courtot) as of December 31, 2020



Compensation-Setting Process

Role of the Compensation Committee

Our compensation committee operates under a written charter adopted by the committee and approved by our board of directors. The charter is available on our website. Each member of our compensation committee qualifies as (i) an "independent director" under the Nasdaq Stock Market requirements, and (ii) a "non-employee director" under Rule 16b-3 of the Exchange Act of 1934.

Our compensation committee oversees our overall compensation philosophy, compensation plans, and benefits programs. Our compensation committee is responsible for reviewing, approving, and administering our annual and long-term incentive compensation plans and our employee benefit plans and for administering our equity incentive plans.

To this end, our compensation committee establishes the performance objectives and certifies the performance achievement under our annual and long-term incentive compensation plans and approves the grant of equity awards under our equity incentive plans. Our compensation committee also reviews on a periodic basis the operations of our executive compensation program to determine whether they are properly coordinated and achieving their intended purposes. If our compensation committee determines that any aspect of our executive compensation program yields payments and benefits that are not reasonably related to executive and corporate performance, the committee may take steps to modify the program.

Our compensation committee has authority to engage independent outside consultants and obtain input from our management team, other employees, and external advisers. In 2020, our compensation committee engaged Mercer (US) Inc. (Mercer), a third-party compensation consultant, to assist us with respect to the compensation of our executive officers, including our named executive officers.

Role of Compensation Consultant

In 2020, Mercer provided data on the compensation provided to executives in our compensation peer group and the market in general. The compensation peer group is selected on the basis of relevant industry, size, location and comparability of the business. This data was considered by our compensation committee in setting executive compensation in 2020. This process involved Mercer analyzing, reviewing and making recommendations to our compensation committee regarding (i) the compensation peer group and (ii) various elements of our executive compensation program based on a comparison of the base salary, target total cash compensation (i.e., base salary plus non-equity incentive plan compensation), annual long-term incentive values, and target total direct compensation (i.e., target total cash compensation plus equity awards) we provide to our named executive officers against that provided by our compensation peer group to similarly situated executives. Mercer also provided support in refining our compensation program to respond to the feedback we received from our stockholders in 2020. In 2020, Mercer did not provide any services to us or receive any payments from us, except in its capacity as a consultant to our compensation committee. Based on the consideration of the various factors as set forth in the rules of the SEC and the Nasdaq Stock Market, our compensation committee believes that its relationship with Mercer and the work of Mercer on behalf of the committee has not raised any conflicts of interest.

Role of Management

During 2020, Ms. Fisher (before her resignation on May 29, 2020), Ms. Kim (following her appointment as our Chief Financial Officer on June 29, 2020), Mr. Posey, and Rima Touma-Bruno, our Chief Human Resources Officer, typically attended our compensation committee's meetings. Our compensation committee may invite to its meetings any other person that it deems appropriate. No named executive officer attends the portions of a meeting during which decisions regarding his or her compensation are made.

Peer Companies

On an annual basis, our compensation committee approves a list of peer companies for the committee to use in conducting a competitive market analysis of executive officer compensation. To represent the market in which we compete for talent, we consider four primary company characteristics in determining the peer group each year:

1. Size: Similarly-sized publicly-traded companies in terms of annual revenue and market capitalization.
2. Industry: Software, Internet Services & Infrastructure, and Technology Hardware & Equipment GICS sub-industry.
3. Growth: Companies with strong revenue growth and high market capitalization to revenue ratios.
4. Location: Primarily companies in Northern California.

The following is a list of the public companies that our compensation committee approved as our compensation peer group in October 2019 that was used to set cash and equity compensation before July 2020:

Compensation Peer Group		
AppFolio, Inc.	New Relic	Splunk Inc.
FireEye Inc.	Palo Alto Networks, Inc.	SPS Commerce, Inc.
Five9, Inc.	Proofpoint, Inc.	Tenable Holdings, Inc.
HubSpot, Inc.	Q2 Holdings, Inc.	Varonis Systems, Inc.
LogMeIn, Inc.	Rapid7, Inc.	Zendesk, Inc.

In April 2020 and again in July 2020, with the assistance of Mercer, our compensation committee reviewed our compensation peer group based on our peer group selection criteria. As there have been changes in the size, profitability, and comparative characteristics of the companies in our compensation peer group, our compensation committee decided to add CrowdStrike to our compensation peer group. The following is a list of the public companies that our compensation committee approved as our compensation peer group in July 2020 that was used to set cash and equity compensation beginning in July 2020:

Compensation Peer Group		
AppFolio, Inc.	New Relic	Splunk Inc.
CrowdStrike Holdings, Inc.	Palo Alto Networks, Inc.	SPS Commerce, Inc.
FireEye Inc.	Proofpoint, Inc.	Tenable Holdings, Inc.
Five9, Inc.	Q2 Holdings, Inc.	Varonis Systems, Inc.
HubSpot, Inc.	Rapid7, Inc.	Zendesk, Inc.
LogMeIn, Inc.		

	Revenue ($ in millions)	Market Capitalization ($ in millions)	Number of Employees (#)
75th Percentile	$1,030	$18,192	3,658
Median	$ 655	$ 6,818	1,847
25th Percentile	$ 403	$ 5,191	1,549
Qualys	**$ 363**	**$ 4,755**	**1,498**
Percentile Rank	22%	20%	23%

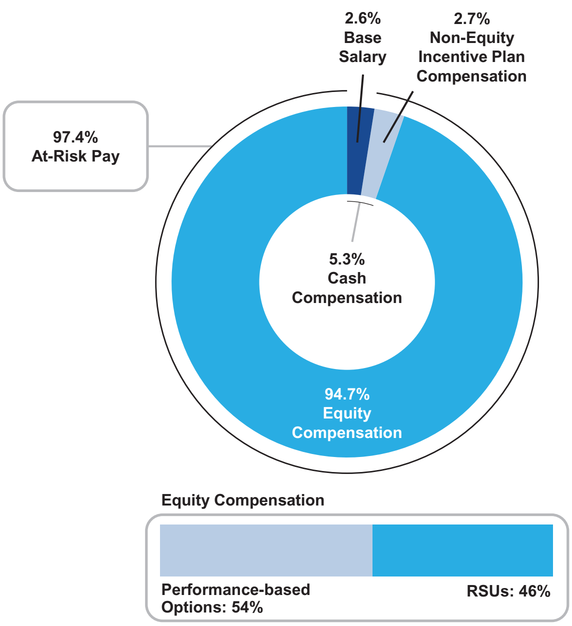
Use of Peer Data

Our compensation committee uses the compensation peer group and market data provided by Mercer (including custom cuts of survey data from Radford) to obtain a general understanding of compensation practices within our compensation peer group and the market in general. In setting the various elements of compensation for the named executive officers, our compensation committee reviewed base salary, target total cash compensation (i.e., base salary plus non-equity incentive plan compensation), annual long-term incentive values, and target total direct compensation (i.e., target total cash compensation plus equity incentives). We believe that considering these measures was important because it allows us to provide compensation that, as a complete package, is appropriate for each named executive officer.

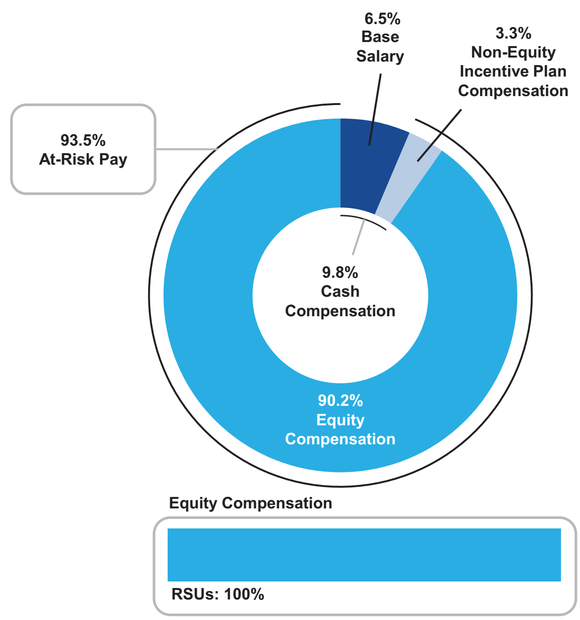
Pay Mix

As shown in the charts below, a significant portion of the target total direct compensation for the named executive officers is at-risk variable pay (97.4% for the CEO and 93.5% for Messrs. Posey and Thakar, who were the named executive officers (other than the CEO) who were employed by us for all of 2020). For the chart showing the target total direct compensation of Messrs. Posey and Thakar, each figure was separately calculated for each named executive officer, and the percentages shown in the chart represent the average of the figures for the two named executive officers.

CEO
2020 TARGET
COMPENSATION STRUCTURE



MESSRS. POSEY AND THAKAR
AVERAGE 2020 TARGET
COMPENSATION STRUCTURE



Executive Compensation Program Components

The following sections describe each component of our executive compensation program, provide the rationale for each component, and explain how the compensation amounts and awards were determined for 2020.

Base Salary

Base salary is the primary fixed component of our named executive officers' compensation. We use base salary to compensate our named executive officers for services rendered during the fiscal year and to ensure that we remain competitive in attracting and retaining executive talent. A named executive officer's base salary at hire is determined through arm's-length negotiation. Our compensation committee typically reviews and considers adjustments to our named executive officers' base salaries on an annual basis. When doing so, our compensation committee considers factors such as the named executive officer's experience, skills, knowledge, responsibilities, and performance and the prevailing market conditions.

Our compensation committee reviewed our executive compensation program, including base salary for our named executive officers. The committee evaluated the peer group compensation data provided by Mercer and determined, based on its judgment, that we were providing target compensation below current market compensation. The compensation committee approved increases to the base salaries of our named executive officers effective as of November 1, 2020. Each named executive officer's base salary during 2020 is listed in the table below.

Named Executive Officer	Base Salary at Start of 2020	Base Salary Effective November 1, 2020	% Change
Philippe F. Courtot	$412,000	$450,000	9%
Sumedh S. Thakar	379,000	400,000	6%
Joo Mi Kim	330,000*	340,000	3%
Bruce K. Posey	313,000	330,000	5%
Melissa B. Fisher	361,000	—	—

* Represents Ms. Kim's base salary at the commencement of her employment with us on June 29, 2020.

The total base salaries paid to our named executive officers during 2020 are set forth in the section entitled "*2020 Summary Compensation Table*" below.

Non-Equity Incentive Plan Compensation

To motivate and reward our named executive officers to achieve our annual financial and operational objectives and our long-term strategic and growth goals, we provide cash incentive compensation to them based on meeting one or more corporate performance objectives. The objectives change from year to year as we grow and market conditions evolve and different priorities are established, but our compensation committee selects challenging goals that are achievable only by strong performance.

Our named executive officers participated in our 2020 Corporate Bonus Plan, which provides them with an opportunity to receive formula-based incentive amounts on a quarterly basis. Our compensation committee decided this was the most appropriate measure of time to determine achievement of short-term goals because it aligns with the time periods for which we give external guidance. Our named executive officers' target bonus opportunities under the 2020 Corporate Bonus Plan are expressed as a percentage of each named executive officer's base salary as of the last day of the applicable quarter. Ms. Kim's percentage was determined through arm's-length negotiation in connection with her hire. For the other named executive officers, their percentages have remained unchanged since 2016.

Each named executive officer's target bonus opportunity is listed in the table below and represents the maximum amount that the named executive officer can receive under the 2020 Corporate Bonus Plan.

Named Executive Officer	Target (and Maximum) Bonus for 2020
Philippe F. Courtot	100%
Sumedh S. Thakar	50%
Joo Mi Kim	50%
Bruce K. Posey	50%
Melissa B. Fisher	50%

For 2020, the performance metrics used to determine bonuses continued to be (i) growth in our bookings for the applicable quarter over the same quarter of the prior year, (ii) growth in revenue from the same quarter in 2019 and (iii) non-GAAP earnings per diluted share, with all three metrics weighted equally. Our compensation committee selected these three metrics, which measure sales growth and profitability, as the corporate performance metrics that best supported our annual operating plan and enhance long-term value creation.

These three metrics were calculated as follows:

- Bookings was calculated as the sum of subscribed revenues for all new, renewal and upsell subscriptions contracted by customers and channel partners in each quarter. The subscribed revenues were based on the amount of subscription contracted if the term is one year or less and were capped at one year's worth of subscribed revenues if the subscription term exceeds one year. The bookings growth measure is an internal measure and is a non-GAAP financial measure.
- Revenue was determined in accordance with GAAP and set forth in our quarterly and annual financial statements.
- Non-GAAP earnings per diluted share measure was calculated as GAAP net income less stock-based compensation expense, acquisition-related expenses (except for ordinary course advisory fees), and non-recurring charges under the 2020 Corporate Bonus Plan, divided by weighted average shares (diluted) for the applicable quarter.

For each of the three metrics, performance may be adjusted to remove the effects of charges for restructurings, discontinued operations, extraordinary items and all items of gain, loss or expense determined to be extraordinary or unusual in nature or related to the disposal of a segment of a business or related to a change in accounting principle, asset write-downs, litigation, claims, judgments or settlements, the effect of changes in tax law or other such laws or provisions affecting reported results, accruals for reorganization and restructuring programs. These exclusions are intended so that performance can be evaluated on organic foreseeable results rather than extraordinary transactions outside the scope of the compensation committee's forecasts. No adjustments were made in 2020.

The target award amounts for our named executive officers in each quarter of 2020 were as follows:

2020 Corporate Bonus Plan Target Awards

Named Executive Officer	Q1 Target	Q2 Target	Q3 Target	Q4* Target	Total Target
Philippe F. Courtot	$103,000	$103,000	$103,000	$112,500	$421,500
Sumedh S. Thakar	47,375	47,375	47,375	50,000	192,125
Joo Mi Kim	—	—	41,250	42,500	83,750
Bruce K. Posey	39,125	39,125	39,125	41,250	158,625
Melissa B. Fisher	45,125	45,125	—	—	90,250

* Q4 target is higher than earlier quarters as it reflects the base salary increases approved by the compensation committee effective November 1, 2020.

Each named executive officer's bonus is paid as a percentage of his or her target incentive amount based on the weighted average of the payout percentages for each applicable measure. To be eligible for a quarterly bonus payment under our 2020 Corporate Bonus Plan, an individual must be employed as of the last day of the quarter.

Based on the achievement against the applicable performance measures discussed below, the quarterly and aggregate actual amounts awarded to our named executive officers for 2020 were as follows:

2020 Corporate Bonus Plan—Actual Award Amount

Named Executive Officer	Q1 Award Amount	Q2 Award Amount	Q3 Award Amount	Q4 Award Amount	Total Amount
Philippe F. Courtot	$97,644	$103,000	$103,000	$112,500	$416,144
Sumedh S. Thakar	44,912	47,375	47,375	50,000	189,662
Joo Mi Kim	—	—	41,250	42,500	83,750
Bruce K. Posey	37,091	39,125	39,125	41,250	156,591
Melissa B. Fisher	42,779	—	—	—	42,779

For each of the three equally-weighted measures, the payout percentage was capped at target (100%). Our compensation committee believed that achieving the top end of the targets would be sufficiently challenging and incentivize top-end performance. Payout could be zero if performance is below minimum levels for all three measures.

In April 2020, our compensation committee approved adjustments to the performance targets under the 2020 Corporate Bonus Plan for the second through fourth quarters, based on updates to our financial plan in light of the existing and potential effects of the COVID-19 pandemic. Our compensation committee determined that the initial 2020 Corporate Bonus Plan without any adjustment would not be a fair representation of performance and financial achievement and that an adjustment was necessary to promote retention by ensuring that our employees, including the named executive officers, still had meaningful and realistically attainable short-term incentive opportunities in light of the extraordinary circumstances presented by the COVID-19 pandemic and its impact on our business. The compensation committee expected a slowdown of new customer wins due to the impact of the COVID-19 pandemic and adjusted bookings growth, revenue growth, and Non-GAAP EPS accordingly. Our compensation committee deemed these adjustments to be in the best interests of our company and our stockholders because they would allow us to continue to motivate and reward our employees for achieving objectives that would drive increased stockholder value. Furthermore, despite the impacts of the pandemic, Qualys delivered strong total shareholder return that was up 46% for the fiscal year. In addition, there were no significant layoffs, salary reductions, or benefit reductions in fiscal 2020. All our employees also take part in the same Corporate Bonus Plan as our executive officers and are eligible to receive a bonus based upon the same metrics.

The original and adjusted performance targets for these quarters were as follows:

	Q2		Q3		Q4	
	Original	Revised	Original	Revised	Original	Revised
Bookings Growth	16.2%	8.2%	16.0%	8.2%	18.0%	8.8%
Rev Growth	14.7%	12.3%	14.9%	10.0%	16.0%	9.4%
Non-GAAP EPS	$0.66	$0.67	$0.71	$0.63	$0.70	$0.56

The following table shows the level of achievement of each quarterly performance target under our 2020 Corporate Bonus Plan and the corresponding payout for each of these quarterly performance targets:

	Q1			Q2			Q3			Q4		
	Target	Actual	Payout	Target	Actual	Payout	Target	Actual	Payout	Target	Actual	Payout
Bookings Growth	13%	*	84.3%	8.2%	*	100%	8.2%	*	100%	8.8%	*	100%
Rev Growth	14.3%	14.5%	100%	12.3%	12.5%	100%	10.0%	12.6%	100%	9.4%	12.0%	100%
Non-GAAP EPS	$0.64	$0.65	100%	$0.67	$0.74	100%	$0.63	$0.77	100%	$0.56	$0.71	100%
Weighted Payout			94.8%			100%			100%			100%

* With respect to actual bookings growth rate, as noted above, this is an internal measure that we do not disclose for several reasons, including our belief that disclosure would result in competitive harm to the Company. If the results were disclosed, we believe the information would provide competitors with insights into our operations and sales compensation programs that would be harmful to us.

Equity Compensation

We use equity awards to incentivize and reward strong long-term corporate performance and to align the interests of our named executive officers with those of our stockholders. In 2020, we issued equity in the form of time-based restricted stock units (“RSUs”) to all of our named executive officers (including Mr. Courtot) and performance-based stock options to Mr. Courtot. RSUs serve to retain executive officers over the long term and align with our objective of long-term stockholder value creation. RSUs are less dilutive than stock options and provide a floor of certain value delivered even if the stock price declines (as an RSU would never be “out of the money,” unlike stock options).

Mr. Courtot’s performance-based options drive long-term stockholder value creation and more strongly aligns his interests with the interests of the Company and its stockholders. The performance-based options will provide significant value to Mr. Courtot only if the Company achieves specific operational goals since the options will vest and become exercisable only if these goals are achieved. The Company’s stockholders will realize additional value when Mr. Courtot pays the exercise price for shares he acquires by exercising the options. Therefore, Mr. Courtot will receive value from the options only if the value of the shares increases from the closing price of our common stock on the grant date of the options.

Each year, we evaluate granting equity awards to our named executive officers to provide additional incentive to continue providing services to us. When determining the size of these equity awards, we generally do not apply a fixed formula. Instead, we aim to maximize long-term stockholder value by granting an amount of equity that properly rewards the named executive officer for his or her contribution to the growth in such value. We consider factors such as:

- the named executive officer’s performance, contributions, responsibilities, and experience;
- the equity held by the named executive officer (including the economic value of his or her unvested equity awards and the ability of this equity to satisfy our retention objectives);
- a compensation analysis performed by our human resources department and/or our independent compensation consultant;
- compensation peer group and market data provided by our independent compensation consultant;
- the equity award recommendations of management (except with respect to their own equity awards); and
- and internal equity considerations.

We also periodically grant equity awards to new executive hires or in connection with a promotion and to recognize corporate and individual performance. The size of equity awards granted to our named executive officers in connection with their hire is determined through arm's-length negotiation. We consider factors such as the named executive officer's prospective role and responsibilities, the cash compensation the named executive officer is expected to receive, the potential incentive and retention value of the award, and the prevailing market conditions.

The equity awards granted to our named executive officers in 2020 are set forth in the sections entitled "*2020 Summary Compensation Table*" and "*Grants of Plan-Based Awards in 2020 Table*" below.

New Hire Grant

In July 2020, our compensation committee approved an initial new hire award of 37,894 RSUs to Ms. Kim. The RSU award had an intended value of $4,000,000, which was converted into a number of RSUs by dividing the intended value by the average closing price of our common stock for the 30-trading-day-period ending seven days before the grant date. The RSU award vests as to 1/16th of the RSUs on each quarterly anniversary of the RSU award's vesting commencement date, subject to Ms. Kim's continued service with us. The vesting of the RSU award would accelerate upon the occurrence of certain specified events, as described in the section entitled "*Potential Payments Upon Termination or Change in Control*" below.

Annual Equity Grants—Mr. Thakar, Ms. Kim and Mr. Posey

In 2020, our compensation committee determined that the equity awards for 2021 to be granted to our named executive officers (other than Mr. Courtot) should be in the form of RSUs. These RSUs vest over four years and serve to retain executive officers over a long-term period and align with our objective of long-term stockholder value creation. Our board of directors approved the equity awards to these named executive officers in October 2020.

The vesting of the RSUs granted to our named executive officers is subject to the applicable named executive officer's continued service with us as of each vesting date. In addition, the vesting of these RSUs would accelerate upon the occurrence of certain specified events, as described in the section entitled "*Potential Payments Upon Termination or Change in Control*" below. The number of shares of our common stock covered by these RSUs and their intended value at the time of grant is listed in the table below. The intended value of each award was converted into a number of RSUs by dividing the intended value by the average closing price of our common stock for the 30-trading-day-period ending seven days before the grant date ($98.67). Ms. Kim's annual equity grant reflects her receipt of a new hire grant upon the commencement of her employment with us.

Named Executive Officer	RSUs (#)	Intended Value of RSUs ($)
Sumedh S. Thakar	81,079	8,000,000
Joo Mi Kim	10,135	1,000,000
Bruce K. Posey	32,432	3,200,000

Annual Equity Grants—Mr. Courtot

Based on the feedback from our stockholders, our compensation committee determined that the equity awards to be granted to Mr. Courtot should continue to be a mix of RSUs and performance-based stock options. Our board of directors approved the equity awards to Mr. Courtot in December 2020.

RSUs: The vesting of the RSUs granted to Mr. Courtot is subject to his continued service with us as of each vesting date. These RSUs vest over four years and serve to retain Mr. Courtot over a long-term period and align with our objective of long-term stockholder value creation.

Performance-based options: The performance-based options granted to Mr. Courtot will vest based on the compound annual growth rate of revenues for a three-year period from January 2021 through December 2023 and the compound annual growth rate of free cash flow per share for the same three-year period, subject to Mr. Courtot's continued service through the date that performance is certified. These metrics were set because our board of directors believes these criteria are best suited to drive creation of shareholder value.

In addition, the vesting of the RSUs and the performance-based options granted to Mr. Courtot would accelerate upon the occurrence of certain specified events, as described in the section entitled "*Potential Payments Upon Termination or Change in Control*" below. The number of shares of our common stock covered by Mr. Courtot's RSUs and performance-based options and their intended value at the time of grant are listed in the table below.

Named Executive Officer	RSUs	Intended Value of RSUs	Shares Subject to Performance-Based Options Vesting at Target Level of Performance	Intended Value of Performance-Based Options at Target Level of Performance
Philippe F. Courtot	69,401	$6,440,000	223,744	$7,560,000

For Mr. Courtot, the intended value of his RSU award was converted to a number of RSUs by dividing the intended value by the average closing price of our common stock for the 30-trading-day-period ending seven days before the grant date ($92.80), and the intended value of his performance-based options was converted to a number of options based on assumptions about the options' grant date fair value (based on our valuation methods used consistent with our financial statement reporting).

Amendment of Performance Goals for Performance-Based Awards Granted to Mr. Courtot in 2018 and 2019

In December 2018, we granted to Mr. Courtot an equity award of performance-based restricted stock units ("PRSUs") that included a tranche with a target number of 33,089 PRSUs that vest based on the compound annual growth rate of revenues ("Revenue CAGR") for a three-year period from January 2019 through December 2021 and adjusted EBITDA margin for the 2021 fiscal year. In addition, in November 2019, we granted to Mr. Courtot an option to purchase 123,856 shares (at target level of achievement) of our common stock (the "3 Year Option") that vests based on the Revenue CAGR for a three-year period from January 2020 through December 2022 and the compound annual growth rate of free cash flow per share ("FCF CAGR") for the same three-year period. For this tranche of the PRSU award and this option (each, a "3-Year Performance Award"), the actual portion of each 3-Year Performance Award that vests is based on the lowest level of performance achievement for the two metrics that apply to the 3-Year Performance Award.

In June 2020, our board approved an amendment to each 3-Year Performance Award to (i) adjust the performance targets for the 3-Year Performance Award in light of the existing and potential effects of the COVID-19 pandemic and consistent with the adjustments to our operating plan in light of COVID-19 and (ii) change the method of determining performance achievement for the 3-Year Performance Award so that the actual portion of the 3-Year Performance Award that vests will be based on the average level of performance achievement for the two metrics that apply to the 3-Year Performance Award.

The adjusted performance targets for this tranche of the PRSU award granted to Mr. Courtot in December 2018 were based on Revenue CAGR between 16% and 21.5% and adjusted EBITDA margins between 37% and 42.4%. The adjusted performance targets for the option granted to Mr. Courtot in November 2019 were based on Revenue CAGR between 12% and 20% and FCF CAGR between 12% and 24%.

No additional awards were granted as a result of these adjustments. However, in accordance with SEC disclosure rules, the incremental increase in value of the amended awards as of the modification date must be disclosed in the in the sections entitled "*2020 Summary Compensation Table*" and "*Grants of Plan-Based Awards in 2020 Table*" below. The following supplemental tables show the value of the stock awards and option awards granted to Mr. Courtot in 2020 before and after these adjustments.

STOCK AWARD ACCOUNTING RECONCILIATION

Named Executive Officer	Grant Date Fair Value of December 2020 Stock Award(1)	Accounting Impact of June 2020 Modification to December 2018 Stock Award (2)	Total "Stock Awards" Reported in 2020 Summary Compensation Table
Philippe F. Courtot	$6,459,845	$3,573,943	$10,033,788

(1) Represents the grant date fair value of the restricted stock unit award granted to Mr. Courtot in December 2020.

(2) Represents the incremental fair value, calculated in accordance with SEC disclosure rules, associated with modifications to the outstanding performance-based restricted stock unit award held by Mr. Courtot originally granted in December 2018.

OPTION AWARD ACCOUNTING RECONCILIATION

Named Executive Officer	Grant Date Fair Value of December 2020 Option Award(1)	Accounting Impact of June 2020 Modification to November 2019 Option Award (2)	Total "Option Awards" Reported in 2020 Summary Compensation Table
Philippe F. Courtot	$7,593,402	$3,933,167	$11,526,569

(1) Represents the grant date fair value of the performance-based option award granted to Mr. Courtot in December 2020 based upon the probable outcome of performance conditions.

(2) Represents the incremental fair value, calculated in accordance with SEC disclosure rules, associated with modifications to the outstanding performance-based option award held by Mr. Courtot originally granted in November 2019.

Achievement of Performance Goals for PRSUs Granted to Mr. Courtot in 2018

The PRSU award granted to Mr. Courtot in December 2018 also included a tranche with a target number of 33,088 PRSUs that vest in three annual increments based on the achievement of goals related to revenue growth and adjusted EBITDA margin for each of the 2019, 2020, and 2021 fiscal years. As a result of the Company achieving revenue growth of 12.9% (compared to a target of 11.4% with maximum achievement at 12.4%) and adjusted EBITDA margin of 46.7% (compared to a target of 42.7% with maximum achievement at 44.7%) in 2020, Mr. Courtot vested in the maximum of 22,060 PRSUs from the 2020 tranche (which represents 200% of the 11,030 target number of PRSUs for this tranche). The performance targets for these awards were not adjusted.

Sign-on Bonus

Ms. Kim received a sign-on bonus of $20,000 upon her hiring on June 29, 2020. If Ms. Kim voluntarily terminates her employment within one year after the commencement of her employment with us, she will be required to repay to us the full amount of the sign-on bonus.

Retirement and Other Benefits

Our named executive officers participate in the same retirement plan as other U.S.-based full-time employees. We maintain a tax-qualified retirement plan that provides eligible employees with an opportunity to save for retirement on a tax advantaged basis. All participants' interests in their deferrals are 100% vested when contributed. We match 50% on the dollar up to the first 6% contributed with no vesting period, for our employees, including our named executive officers. Pre-tax contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participants' directions. The 401(k) plan is intended to qualify under Section 401(a) of the Internal Revenue Code (the "Code"). As a tax-qualified retirement plan, contributions to the 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan, and all contributions are deductible by us when made.

In addition, our named executive officers are entitled to participate in the same employee benefit plans, and on the same terms and conditions, as our other U.S.-based, full-time employees. These benefits include health, dental and vision insurance; medical and dependent care flexible spending accounts; short- and long-term disability insurance; life insurance; and accidental death and dismemberment insurance. We believe these benefits are generally consistent with those offered by companies with which we compete for employees.

Perquisites and Other Personal Benefits

We generally do not provide perquisites or other personal benefits to our named executive officers. In the future, we may provide perquisites or other personal benefits in limited circumstances, such as where we believe it is appropriate to assist an individual named executive officer in the performance of his or her duties or to make our named executive officers more efficient and effective and for recruitment, motivation, or retention purposes. Our compensation committee will approve and periodically review all future practices with respect to perquisites or other personal benefits.

Change in Control and Severance Benefits

Ms. Kim's employment offer letter provides for certain protections in the event of termination of her employment under specified circumstances. In addition, certain equity awards granted to our named executive officers provide for acceleration of vesting upon termination of their employment under specified circumstances or upon a change in control of the Company. We believe that these agreements maximize stockholder value by minimizing any potential distractions caused by the possibility of an involuntary termination or a potential change in control, which allows our named executive officers to maintain their focus and dedication to their responsibilities. We believe that these arrangements also provide further retention value by encouraging our named executive officers to continue providing services to us.

For a summary of the material terms and conditions of these severance and change in control arrangements, see the section entitled "*Potential Payments Upon Termination or Change in Control*" below.

Compensation Policies

Hedging and Pledging Policy

We have implemented an insider trading policy that prohibits directors, officers, employees and agents (such as consultants and independent contractors) of the company as well as related parties from trading in derivative securities (including hedging) with respect to our common stock, pledging company securities as collateral, or holding company securities in a margin account.

Stock Ownership Guidelines

We have adopted stock ownership guidelines that set minimum stock ownership requirements for our non-employee directors and executive officers (including our named executive officers), to more closely align their interests with the long-term interests of our stockholders. Shares of the company's common stock (including shares beneficially owned) and vested and exercisable "in-the-money" stock options count towards satisfaction of the stock ownership levels. Each non-employee director and executive officer must satisfy his or her applicable ownership level by the later of (i) February 8, 2024 or (ii) five years after becoming a non-employee director or executive officer, as applicable. In addition, all shares subject to performance-based vesting generally must be held and not disposed of for at least three years from the date of grant of the underlying award.

Named Executive Officer	Stock Ownership Requirement as a Multiple of Base Salary	In Compliance (Yes/No)
Philippe F. Courtot	5.0	Yes
Sumedh S. Thakar	3.0	Yes
Joo Mi Kim	3.0	*
Bruce K. Posey	3.0	Yes

* Ms. Kim became an executive officer in June 2020 and has until June 2025 to satisfy her stock ownership requirement.

Clawback Policy

We have adopted a clawback policy that prevents an executive officer from benefiting from cash-based incentive compensation or performance-based equity compensation that was paid based on the achievement of performance results that were subsequently restated as a result of the officer's misconduct. This policy helps foster and maintain a culture that emphasizes integrity and accountability. Our clawback policy permits us to require that any of our current or former officers who is (or was) subject to Section 16 of the Securities Exchange Act of 1934, as amended, repay certain cash-based incentive compensation or performance-based equity compensation to us if our compensation committee determines that such an officer's actions caused or partially caused us to materially restate all or a portion of our financial statements.

Tax and Accounting Considerations

Deductibility of Executive Compensation

Section 162(m) of the Code generally limits the amount we may deduct for federal income tax purposes for compensation paid to our Chief Executive Officer and certain of our other executive officers in any taxable year to $1 million per person.

An exception to the $1 million limitation for performance-based compensation meeting certain requirements was repealed beginning in 2018 (other than with respect to certain grandfathered arrangements) under the Tax Cuts and Jobs Act (the "Act"). Under the transition relief provisions of the

Act, it is possible that certain of the equity awards we granted prior to 2018 may be grandfathered and eligible to be excluded from the Section 162(m) deduction limits. Except for any equity awards that qualify for such transition relief provisions, compensation paid to any of our covered executives generally will not be deductible in 2020 or future years, to the extent that it exceeds $1 million.

While our compensation committee is mindful of the benefit of being able to fully deduct the compensation paid to our executives, our compensation committee believes that we should retain the flexibility to compensate our executive officers in a manner that can best promote our business objectives. Therefore, our compensation committee intends to continue to compensate our executives in a manner consistent with the best interests of our company and our stockholders, even if such compensation is not fully deductible.

"Parachute Payments" and Deferred Compensation

Under Sections 280G and 4999 of the Code, certain service providers, which may include our named executive officers, may be subject to an excise tax if they receive payments or benefits in connection with a change in control that exceeds certain prescribed limits, and the company may forfeit a deduction on the amounts subject to this excise tax. Also, Section 409A of the Code imposes significant additional taxes on a service provider in the event the service provider receives "deferred compensation" that does not meet the requirements of Section 409A of the Code.

In 2020, we did not provide any of our named executive officers with a "gross-up" or other reimbursement payment for any excise tax liability that he or she might owe as a result of the application of Sections 280G or 4999 or for any additional tax that he or she might owe as a result of the application of Section 409A. We have not agreed and are not otherwise obligated to provide any named executive officer with such a "gross-up" or other reimbursement.

Accounting Considerations

Accounting standards on stock compensation requires us to measure the compensation expense for all share-based payment awards made to employees (including our named executive officers) and directors based on the grant date "fair value" of these awards. This calculation is performed for accounting purposes and reported in the tables below, even though our named executive officers and directors may never realize any value from their equity awards. The accounting standards also require us to recognize the compensation cost of share-based payment awards in our income statements over the period that the named executive officer or director is required to provide services to us in exchange for the vesting of the equity award.

Risk Considerations

Our compensation committee assesses risks created by the incentives inherent in our compensation policies. We have designed our executive compensation program so that our executive officers (including our named executive officers) focus on both short-term and long-term financial and operational performance. In addition, in 2020, our compensation committee had engaged Mercer to independently review our executive compensation program. Our compensation committee conducts an annual review of our executive compensation program to ensure that it continues to reward our executive officers (including our named executive officers) for creating short-term and long-term stockholder value without encouraging our executive officers to take excessive risks. Based on the results of these reviews, we do not believe that our executive compensation program creates risks that are reasonably likely to have a material adverse effect on us. The risk mitigation features include:

- Balance among short- and long-term incentives, cash and equity, fixed and variable pay

- Multiple performance metrics as targets
- Caps on pay
- Clawback policy
- Stock ownership
- Holding period requirement for performance-based equity
- Anti-hedging policies
- Double-trigger change in control requirement

Compensation Committee Report

The following Compensation Committee Report shall not be deemed to be "soliciting material" and should not be deemed "filed" and shall not be deemed to be incorporated by reference in future filings with the SEC, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

The compensation committee has reviewed and discussed with management the Compensation Discussion and Analysis provided above. Based on its review and discussions, the compensation committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this proxy statement and the Company's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 22, 2021.

Respectfully submitted by the members of the compensation committee of the board of directors:

Sandra E. Bergeron (Chair)
General Peter Pace
John Zangardi

2020 Summary Compensation Table

The following table provides information regarding the compensation of our named executive officers for fiscal years 2020, 2019 and 2018.

Name and Principal Position	Year	Salary ($)	Option Awards ($)(1)	Stock Awards ($) (1)	Non-Equity Incentive Plan Compensation ($)(2)	All Other Compensation ($)	Total ($)
Philippe F. Courtot (3)	2020	418,333	11,526,569(4)	10,033,788(5)	416,144	3,517(6)	22,398,351
Chairman and Former	2019	381,938	4,934,423(7)	4,203,777	312,792	6,555	9,839,485
Chief Executive Officer	2018	375,000	—	8,310,345	285,753	127,990	9,099,085
Sumedh S. Thakar	2020	382,500	—	7,786,016	189,662	9,991(8)	8,368,169
Director, Interim Chief	2019	335,125	—	6,536,835	137,094	12,361	7,021,415
Executive Officer, President and Chief Product Officer	2018	325,000	—	5,641,991	123,826	10,300	6,101,117
Joo Mi Kim (9) Chief Financial Officer	2020	169,167	—	5,583,069	83,750	25,467(10)	5,861,453
Bruce K. Posey	2020	315,833	—	3,114,445	156,591	7,722(8)	3,594,591
Vice President, General	2019	282,125	—	2,772,037	115,459	7,468	3,177,089
Counsel and Corporate Secretary	2018	275,000	—	2,210,930	104,776	5,318	2,596,024
Melissa B. Fisher (11)	2020	192,071	—	—	42,779	6,324(8)	241,173
Former Chief Financial	2019	331,750	—	4,013,744	135,821	13,028	4,494,343
Officer	2018	325,000	—	3,099,232	123,826	10,705	3,558,763

(1) Option awards and restricted stock unit awards are shown at their aggregate grant date fair value as determined in accordance with FASB, ASC Topic 718. The fair value of each option grant is

estimated based on the fair market value on the date of grant using the Black-Scholes-Merton option pricing model. The fair value of each restricted stock unit award is measured based on the closing price of our common stock on the date of grant. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For a discussion of valuation assumptions, see the stock-based compensation note to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 22, 2021.

(2) The amounts in this column reflect cash incentives earned under our Corporate Bonus Plan for the applicable year.

(3) Mr. Courtot served as our Chief Executive Officer for all of 2020. Due to health issues unrelated to COVID-19, Mr. Courtot took a leave of absence beginning in February 2021 and resigned as our Chief Executive Officer in March 2021. He will retire from our board of directors and not stand for reelection at the Annual Meeting.

(4) This amount represents (a) the grant date fair value of a performance-based option award granted to Mr. Courtot in December 2020 totaling $7,593,402 based upon the probable outcome of performance conditions (if maximum performance is achieved, the aggregate grant date fair value of such award is $15,186,803), and (b) the incremental fair value, calculated in accordance with SEC disclosure rules, associated with modifications to an outstanding performance-based option held by Mr. Courtot totaling $3,933,167, which was modified as described above in the section entitled "*Executive Compensation—Compensation Discussion and Analysis— Executive Compensation Program Components—Equity Compensation—Amendment of Performance Goals for Performance-Based Awards Granted to Mr. Courtot in 2018 and 2019*." The modification charge does not represent any newly granted awards.

(5) This amount represents (a) the grant date fair value of a restricted stock unit award granted to Mr. Courtot in December 2020 totaling $6,459,845, and (b) the incremental fair value, calculated in accordance with SEC disclosure rules, associated with modifications to an outstanding performance-based restricted stock unit award held by Mr. Courtot totaling $3,573,943, which was modified as described above in the section entitled "*Executive Compensation—Compensation Discussion and Analysis— Executive Compensation Program Components—Equity Compensation—Amendment of Performance Goals for Performance-Based Awards Granted to Mr. Courtot in 2018 and 2019*." The modification charge does not represent any newly granted awards.

(6) Reflects a premium paid by Qualys for supplemental disability insurance.

(7) Amount reported represents the value at the grant date based upon the probable outcome of performance conditions. If maximum performance is achieved for Mr. Courtot's performance-based option award, the aggregate grant date fair value of such award is $9,868,846.

(8) Reflects 401(k) matching contributions by Qualys and a premium paid by Qualys for supplemental disability insurance.

(9) Ms. Kim joined Qualys on June 29, 2020.

(10) Reflects a sign-on bonus of $20,000 (to be repaid upon voluntary termination within one year of hire date), $4,942 of 401(k) matching contributions by Qualys, and a $525 premium paid by Qualys for supplemental disability insurance.

(11) Ms. Fisher left Qualys on May 29, 2020.

Grants of Plan-Based Awards in 2020 Table

The following table shows information regarding cash incentive and equity awards granted to our named executive officers during 2020.

Name	Grant Date	Type of Award (1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($) (3)
			Threshold ($)(2)	Target and Maximum ($)	Threshold (#)	Target (#)	Maximum (#)				
Philippe F. Courtot	—	Bonus Plan	105,375	421,500	—	—	—	—	—	—	—
	12/10/20	RSUs	—	—	—	—	—	69,401	—	—	6,459,845
	12/10/20	Options	—	—	55,936	223,744(4)	447,488	—	—	93.08	7,593,402
	—	Modified Option Award(5)	—	—	—	—	—	—	—	—	3,933,167(5)
	—	Modified RSU Award(6)	—	—	—	—	—	—	—	—	3,573,943(6)
Sumedh S. Thakar	—	Bonus Plan	48,031	192,125	—	—	—	—	—	—	—
	10/27/20	RSUs	—	—	—	—	—	81,079	—	—	7,786,016
Joo Mi Kim	—	Bonus Plan	20,938	83,750	—	—	—	—	—	—	—
	7/29/20	RSUs	—	—	—	—	—	37,894	—	—	4,609,805
	10/27/20	RSUs	—	—	—	—	—	10,135	—	—	973,264
Bruce K. Posey	—	Bonus Plan	39,656	158,625	—	—	—	—	—	—	—
	10/27/20	RSUs	—	—	—	—	—	32,432	—	—	3,114,445
Melissa B. Fisher	—	Bonus Plan	11,281	45,125	—	—	—	—	—	—	—

(1) Awards granted under the "Bonus Plan" represent awards granted under our 2020 Corporate Bonus Plan. "RSUs" represent restricted stock unit awards granted under our 2012 Equity Incentive Plan. "Options" represent stock options granted under our 2012 Equity Incentive Plan.

(2) Amounts reported in this column represent the payout under the 2020 Corporate Bonus Plan based on the minimum amounts payable for certain levels of performance for all three performance measures. Payout could be zero if performance is below minimum levels for all three measures.

(3) Amounts reported in this column represent the grant date fair value of stock options and RSU awards, calculated in accordance with FASB ASC Topic 718. For option awards, that number is calculated by multiplying the fair value of each option grant using the Black-Scholes-Merton option pricing model by the number of options granted.

(4) This performance-based option was granted at target on the grant date. The option will vest based on the compound annual growth rate of revenues for a three-year period from January 2021 through December 2023 and the compound annual growth rate of free cash flow per share for the same three-year period, subject to Mr. Courtot's continued service through the date that performance is certified.

(5) This amount represents the incremental fair value related to the modification of Mr. Courtot's outstanding performance-based option and does not reflect a new equity grant. See the section entitled "*Executive Compensation—Compensation Discussion and Analysis—Executive Compensation Program Components—Equity Compensation—Amendment of Performance Goals for Performance-Based Awards Granted to Mr. Courtot in 2018 and 2019*."

(6) This amount represents the incremental fair value related to the modification of Mr. Courtot's outstanding performance-based restricted stock unit award and does not reflect a new equity grant. See the section entitled "*Executive Compensation—Compensation Discussion and Analysis—Executive Compensation Program Components—Equity Compensation—Amendment of Performance Goals for Performance-Based Awards Granted to Mr. Courtot in 2018 and 2019*."

Outstanding Equity Awards at 2020 Year-End Table

The following table presents, for each of our named executive officers, information regarding outstanding stock options held as of December 31, 2020.

	Option Awards (1)					
Named Executive Officer	Grant Date	Vesting Commencement Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Philippe F. Courtot	12/10/2020	—	—	223,744(2)	93.08	12/9/2030
	11/2/2019	—	—	123,856(3)	86.35	11/1/2029
Sumedh S. Thakar	4/28/2016	4/28/2016	136,000(4)	—	25.56	4/28/2026
	7/30/2015	7/30/2015	50,000(4)	—	37.28	7/29/2025
	10/30/2014	10/30/2014	75,000(4)	—	30.58	10/29/2024
	8/1/2014	6/1/2014	50,000(4)	—	23.51	7/31/2024
	5/2/2014	5/2/2014	18,100(4)	—	19.26	5/1/2024
	10/31/2013	10/31/2013	48,411(4)	—	20.80	10/30/2023
Bruce K. Posey	4/28/2016	4/28/2016	36,300(4)	—	25.56	4/28/2026
	6/6/2012	5/21/2012	85,244(4)	—	8.90	6/5/2022

(1) All stock options referenced in this table were granted under the 2012 Plan.
(2) Shares subject to this stock option will vest based on the achievement of goals that are not market price goals but based on operating performance for the three-year period from January 2021 through December 2023. The number listed in the table represents the number of shares that vest upon achievement of the target level of the performance goal. 55,936 shares vest upon achievement of the threshold level of the performance goal, and 447,488 shares vest upon achievement of the maximum level of the performance goal.
(3) Shares subject to this stock option will vest based on the achievement of goals that are not market price goals but based on operating performance for the three-year period from January 2020 through December 2022. The number listed in the table represents the number of shares that vest upon achievement of the target level of the performance goal. 30,964 shares vest upon achievement of the threshold level of the performance goal, and 247,712 shares vest upon achievement of the maximum level of the performance goal.
(4) Each of these options was fully vested as of December 31, 2020.

The following table presents, for each of our named executive officers, information regarding outstanding stock awards held as of December 31, 2020.

		Stock Awards (1)	
Named Executive Officer	Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(2)
Philippe F. Courtot	12/10/2020	69,401(3)	8,457,900
	11/2/2019	36,513(4)	4,449,839
	12/21/2018	33,089(5)	4,032,556
	12/21/2018	22,059(6)	2,688,290
	12/21/2018	31,641(7)	3,856,089
	10/27/2017	37,308(8)	4,546,726
	4/28/2017	22,286(9)	2,715,995
Sumedh S. Thakar	10/27/2020	81,079(3)	9,881,098
	10/24/2019	61,661(10)	7,514,626
	10/25/2018	33,552(11)	4,088,982
	10/27/2017	18,574(8)	2,263,613
	4/28/2017	9,433(9)	1,149,600
Joo Mi Kim	10/27/2020	10,135(3)	1,235,152
	7/29/2020	35,526(12)	4,329,554
Bruce K. Posey	10/27/2020	32,432(3)	3,952,488
	10/24/2019	26,148(10)	3,186,657
	10/25/2018	11,734(11)	1,430,023
	10/27/2017	3,539(8)	431,298
	4/28/2017	1,479(9)	180,246

(1) All stock awards referenced in this table are restricted stock units (RSUs) that were granted under the 2012 Plan.
(2) Market value of shares or units of stock that have not vested is computed by multiplying (i) $121.87, the closing price on the Nasdaq Stock Market of our common stock on December 31, 2020, the last business day of 2020, by (ii) the number of shares or units of stock.
(3) The RSUs vest quarterly in equal installments over four years, with the first vesting date on February 1, 2021.
(4) The RSUs vest quarterly in equal installments over four years, with the first vesting date on March 1, 2020.
(5) The RSUs will vest based on the achievement of goals that are not market price goals but based on operating performance goals for the three-year period from January 2019 through December 2021.
(6) The RSUs will vest in three increments based on the achievement of goals that are not market price goals but based on operating performance goals for each of fiscal 2019, 2020 and 2021.
(7) The RSUs vest quarterly in equal installments over four years, with the first vesting date on April 1, 2019.
(8) The RSUs vest quarterly in equal installments over four years, with the first vesting date on February 1, 2018.
(9) The RSUs vest quarterly in equal installments over four years, with the first vesting date on August 1, 2017.
(10) The RSUs vest quarterly in equal installments over four years, with the first vesting date on February 1, 2020.
(11) The RSUs vest quarterly in equal installments over four years, with the first vesting date on February 1, 2019.
(12) The RSUs vest quarterly in equal installments over four years, with the first vesting date on October 1, 2020.

Option Exercises and Stock Vested in 2020 Table

The following table sets forth the number of shares of common stock acquired during 2020 by our named executive officers upon the exercise of stock options and the vesting of restricted stock unit awards and the value realized upon such exercise or vesting.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(2)
Philippe F. Courtot	500,000	34,852,507	122,977	11,954,326
Sumedh S. Thakar	44,400	3,839,762	84,281	8,323,521
Joo Mi Kim	—	—	2,368	231,022
Bruce K. Posey	—	—	24,726	2,447,226
Melissa B. Fisher	47,911	3,745,704	28,452	2,640,345

(1) The value realized upon exercise was determined by multiplying (i) the number of shares of our common stock acquired on exercise by (ii) the difference between the closing price per share on the Nasdaq Stock Market of our common stock on the day of exercise and the exercise price per share.

(2) The value realized upon vesting was determined by multiplying (i) the number of shares of our common stock acquired on vesting by (ii) the closing price per share on the Nasdaq Stock Market of our common stock on the day of vesting.

Pension Benefits & Nonqualified Deferred Compensation

We do not provide a pension plan for our employees, and no named executive officers participated in a nonqualified deferred compensation plan during 2020.

Potential Payments Upon Termination or Change in Control

Philippe F. Courtot

Mr. Courtot was granted (i) on April 28, 2017, an award of 178,287 RSUs with a vesting commencement date of May 1, 2017, which was his annual refresh award for 2017, and (ii) on October 27, 2017, an award of 149,232 RSUs with a vesting commencement date of November 1, 2017, which was his annual refresh award for 2018. These awards, which were each granted pursuant to the 2012 Plan and an individual RSU agreement thereunder, are scheduled to vest in equal quarterly installments over four years following the applicable vesting commencement date, subject in each case to Mr. Courtot's continued service through each such date. Following a "change of control" (as defined in the respective RSU agreement) of Qualys, Mr. Courtot receives 100% vesting acceleration of the then-unvested portion of these awards, subject to his continued service through such transaction.

Mr. Courtot was granted on December 21, 2018, an award consisting of (i) 56,250 RSUs with a vesting commencement date of January 1, 2019, (ii) PRSUs (covering a target number of 33,089 PRSUs) that will vest based on achievement of goals related to revenue growth for a three-year period from January 2019 through December 2021 and adjusted EBITDA margin for the 2021 fiscal year, subject to Mr. Courtot's continued service, and (iii) PRSUs (covering a target number of 33,088 PRSUs) that will vest in three increments based on the achievement of goals related to revenue growth and adjusted EBITDA margin for each of the 2019, 2020 and 2021 fiscal years, subject to Mr. Courtot's continued service. The 56,250 RSUs are scheduled to vest in equal quarterly increments over four years following the vesting commencement date, subject to Mr. Courtot's continued service through each such date. This award of RSUs and PRSUs represented his annual refresh award for 2019. This award was granted pursuant to the 2012 Plan and an individual RSU agreement thereunder. If Mr. Courtot's employment (i) is terminated by reason of death or disability or (ii) is terminated by the Company other than for "cause" (as defined in the RSU agreement) or he resigns for "good reason" (as defined in the RSU agreement) within 12 months following a "change in control" (as defined in the 2012 Plan) of Qualys, then, in each case, 100% of the then-unvested RSUs and PRSUs subject to the award will accelerate (in the case of PRSUs, at target levels).

Mr. Courtot was granted on November 2, 2019, (i) an award of 48,683 RSUs with a vesting commencement date of December 1, 2019, and (ii) performance-based options covering a total of 123,856 shares at the target level of performance (or 247,712 shares at the maximum level of performance). These awards together represented his annual refresh award for 2020. Each of these awards were granted pursuant to the 2012 Plan and an individual RSU or stock option agreement thereunder. The 48,683 RSUs are scheduled to vest in equal quarterly increments over four years following the vesting commencement date, subject to Mr. Courtot's continued service through each such date. The performance-based options will vest based on the compound annual growth rate of revenues for a three-year period from January 2020 through December 2022 and the compound annual growth rate of free cash flow per share for the same three-year period, subject to Mr. Courtot's continued service through the date that performance is certified. If a "change in control" of the Company (as defined in the 2012 Plan) occurs during the performance period, then 100% of the target number of shares subject to the performance-based options will be scheduled to vest on January 1, 2023, subject to Mr. Courtot's continued service through such date. If Mr. Courtot's employment (i) is terminated by reason of death or disability or (ii) is terminated by Qualys other than for "cause" (as defined in the RSU agreement) or he resigns for "good reason" (as defined in the RSU agreement) within 12 months following a "change in control" (as defined in the 2012 Plan) of Qualys, then, in each case, 100% of the then-unvested RSUs and 100% of the target number of shares subject to the performance-based options will accelerate.

Mr. Courtot was granted on December 10, 2020, (i) an award of 69,401 RSUs with a vesting commencement date of November 1, 2020, and (ii) performance-based options covering a total of 223,744 shares at the target level of performance (or 447,488 shares at the maximum level of performance). These awards together represented his annual refresh award for 2021. Each of these awards were granted pursuant to the 2012 Plan and an individual RSU or stock option agreement thereunder. The 69,401 RSUs are scheduled to vest in equal quarterly increments over four years following the vesting commencement date, subject to Mr. Courtot's continued service through each such date. The performance-based options will vest based on the compound annual growth rate of revenues for a three-year period from January 2021 through December 2023 and the compound annual growth rate of free cash flow per share for the same three-year period, subject to Mr. Courtot's continued service through the date that performance is certified. If a "change in control" (as defined in the 2012 Plan) of Qualys occurs during the performance period, then 100% of the target number of shares subject to the performance-based options will be scheduled to vest on January 1, 2024, subject to Mr. Courtot's continued service through such date. If Mr. Courtot's employment (i) is terminated by reason of death or disability or (ii) is terminated by Qualys other than for "cause" (as defined in the RSU agreement) or he resigns for "good reason" (as defined in the RSU agreement) within 12 months following a "change in control" (as defined in the 2012 Plan) of Qualys, then, in each case, 100% of the then-unvested RSUs and 100% of the target number of shares subject to the performance-based options will accelerate.

Sumedh S. Thakar

Mr. Thakar was granted (i) on April 28, 2017, an award of 75,458 RSUs with a vesting commencement date of May 1, 2017, which was his annual refresh award for 2017, (ii) on October 27, 2017, an award of 74,295 RSUs with a vesting commencement date of November 1, 2017, which was his annual refresh award for 2018, (iii) on October 25, 2018, an award of 67,104 RSUs, with a vesting commencement date of November 1, 2018, which was his annual refresh award for 2019, (iv) on October 24, 2019, an award of 82,214 RSUs with a vesting commencement date of November 1, 2019, which was his annual refresh award for 2020, and (v) on October 27, 2020, an award of 81,079 RSUs with a vesting commencement date of November 1, 2020, which was his annual refresh award for 2021. These awards, which were each granted pursuant to the 2012 Plan and an individual RSU agreement thereunder, are scheduled to vest in equal quarterly installments over four years following the applicable vesting commencement date, subject in each case to Mr. Thakar's continued service through each such date.

If, within 12 months following a "change in control" (as defined in the 2012 Plan) of Qualys, Mr. Thakar's employment is terminated by Qualys without "cause" (as defined in the respective RSU agreement), death or disability, or he resigns for "good reason" (as defined in the respective RSU agreement), then, in each case, subject to the execution of a release of claims, 50% of the then-unvested portion of each award set forth above will accelerate. If Mr. Thakar's employment is terminated by reason of death or disability, 100% of the then-unvested portion of the awards set forth in clauses (iii), (iv) and (v) above will accelerate.

Joo Mi Kim

Ms. Kim was granted (i) on July 29, 2020, an award of 37,894 RSUs with a vesting commencement date of July 1, 2020, which was her new hire award for 2020, and (ii) on October 27, 2020, an award of 10,135 RSUs with a vesting commencement date of November 1, 2020, which was her annual refresh award for 2021. These awards, which were each granted pursuant to the 2012 Plan and an individual RSU agreement thereunder, are scheduled to vest in equal quarterly installments over four years following the applicable vesting commencement date, subject in each case to Ms. Kim's continued service through each such date.

If, within 12 months following a "change in control" (as defined in the 2012 Plan) of Qualys, Ms. Kim's employment is terminated by Qualys other than for "cause" (as defined in the respective RSU agreement), death or disability, or she resigns for "good reason" (as defined in the respective RSU agreement), then, in each case, 100% of the then-unvested portion of each award will accelerate, pursuant to her offer letter agreement dated May 21, 2020 and the respective RSU agreements). If Ms. Kim's employment is terminated by reason of death or disability, 100% of the then-unvested portion of the award set forth in clause (ii) above will accelerate.

In addition, pursuant to Ms. Kim's offer letter agreement, if her employment is terminated by Qualys without cause, she will be entitled to severance equal to 4 months of her base salary, subject to her entering into a severance agreement with and a general release of claims in favor of Qualys.

Bruce K. Posey

Mr. Posey was granted (i) on April 28, 2017, an award of 11,827 RSUs with a vesting commencement date of May 1, 2017, which was his annual refresh award for 2017, (ii) on October 27, 2017, an award of 14,153 RSUs, with a vesting commencement date of November 1, 2017, which was his annual refresh award for 2018, (iii) on October 25, 2018, an award of 23,468 RSUs, with a vesting commencement date of November 1, 2018, which was his annual refresh award for 2019, (iv) on October 24, 2019, an award of 34,864 RSUs with a vesting commencement date of November 1, 2019, which was his annual refresh award for 2020, and (v) on October 27, 2020, an award of 32,432 RSUs with a vesting commencement date of November 1, 2020, which was his annual refresh award for 2021. These awards, which were each granted pursuant to the 2012 Plan and an individual RSU agreement thereunder, are scheduled to vest in equal quarterly installments over four years following the applicable vesting commencement date, subject in each case to Mr. Posey's continued service through each such date.

Upon a “change in control” (as defined in the 2012 Plan) of Qualys, Mr. Posey will receive 75% vesting acceleration of the then-unvested portion of the award granted on April 28, 2017, subject to his continued service through such transaction. If, within 12 months following a “change in control” (as defined in the 2012 Plan) of Qualys, Mr. Posey’s employment is terminated by Qualys without “cause” (as defined in the respective RSU agreement), death or disability, or he resigns for “good reason” (as defined in the respective RSU agreement), then, in each case, subject to the execution of a release of claims, 50% of the then-unvested portion of each award set forth in clauses (ii), (iii), (iv) and (v) above will accelerate. If Mr. Posey’s employment is terminated by reason of death or disability, 100% of the then-unvested portion of the awards set forth in clauses (iii), (iv) and (v) above will accelerate.

Estimated Payments Upon Termination or Change in Control

The following table provides an estimate of the payments and benefits that would be provided in the circumstances described above for each of the named executive officers, assuming the triggering event took place on December 31, 2020 (the last business day of 2020) and based on the $121.87 closing price per share of our common stock on the Nasdaq Stock Market on that date. A number of factors may affect the nature and amount of any potential payments or benefits, and as a result, the payments and benefits actually paid (if any) may be different. For example, a triggering event may occur on a date other than December 31, 2020, the price per share of our common stock on the date of the triggering event may be higher or lower than $121.87 or the assumptions relied upon in the estimate of potential payments and benefits below may not reflect the actual circumstances of the triggering event. Accordingly, there is no guarantee that a triggering event would produce the same or similar results as those estimated below.

			Upon a Qualifying Termination of Employment		
Named Executive Officer	**Type of Benefit**	**Upon a Change of Control ($) (1)**	**Not in Connection With a Change of Control ($)**	**In Connection With a Change of Control ($) (1)(2)**	**Upon Disability or Death ($) (1)**
Philippe F. Courtot (3)	Vesting Acceleration	7,262,721	—	34,325,629	34,325,629
	Total Termination Benefits	**7,262,721**	**—**	**34,325,629**	**34,325,629**
Sumedh S. Thakar	Vesting Acceleration	—	—	12,448,960	21,484,706
	Total Termination Benefits	**—**	**—**	**12,448,960**	**21,484,706**
Joo Mi Kim	Vesting Acceleration	—	—	5,564,706	1,235,152
	Base Salary Severance	—	113,333	113,333	—
	Total Termination Benefits	**—**	**113,333**	**5,678,039**	**1,235,152**
Bruce K. Posey	Vesting Acceleration	135,184	—	4,500,233	8,569,167
	Total Termination Benefits	**135,184**	**—**	**4,500,233**	**8,569,167**

(1) The amounts listed represent the vesting acceleration benefits described above in the section entitled “*Potential Payments Upon Termination or Change in Control*” as of December 31, 2020. For RSUs and PRSUs, the value of such vesting acceleration is computed by multiplying (i) the number of shares of our common stock subject to the RSUs or PRSUs that are being accelerated (at target for PRSUs) by (ii) the closing sales price per share of our common stock on December 31, 2020 ($121.87). For options, the value of such vesting acceleration is computed by multiplying (i) the number of shares of our common stock subject to the options that are being accelerated by (ii) the difference between the closing sales price per share of our common stock on December 31, 2020 ($121.87) and the option’s exercise price per share.

(2) If a named executive officer has a qualifying termination in connection with a change of control, he or she would also receive the vesting acceleration benefits in the column titled “Upon a Change of Control”. As a result, Total Termination Benefits for each named executive officer would be $41,588,350 for Mr. Courtot; $12,448,960 for Mr. Thakar; $5,678,039 for Ms. Kim; and $4,635,417 for Mr. Posey.
(3) The compensation committee of our board of directors determined that Mr. Courtot’s termination of employment in March 2021 was a termination on account of disability. In accordance with the award agreements described above in the section entitled “*Potential Payments Upon Termination or Change in Control—Philippe F. Courtot*,” the outstanding and unvested portion of the awards granted to Mr. Courtot on December 21, 2018, November 2, 2019 and December 10, 2020 was 100% fully accelerated as of the date of his termination of employment.

CEO Pay Ratio

Under SEC rules, we are required to provide the following information regarding the relationship between the annual total compensation of Mr. Courtot, our Chairman and Chief Executive Officer in 2020, and the median annual total compensation of our employees (other than Mr. Courtot) for fiscal 2020:

1. The median of the annual total compensation of all employees (other than Mr. Courtot) of the Company (including our consolidated subsidiaries) was $40,104.
2. Mr. Courtot’s annual total compensation, as reported in the 2020 Summary Compensation Table included in this proxy statement, was $22,398,351.
3. Based on the above, for 2020, the ratio of Mr. Courtot’s annual total compensation to the median of the annual total compensation of all employees other than Mr. Courtot was approximately 559 to 1.

This pay ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of SEC Regulation S-K. We determined the median of the annual total compensation of our employees (other than Mr. Courtot) as of December 31, 2020, at which time we (including our consolidated subsidiaries) had 1,497 full-time, part-time, and temporary employees, 407 of whom are U.S. employees, and 1,090 (or approximately 73% of our total employee population) of whom are located outside of the United States (7 in Australia, 3 in Brazil, 10 in Canada, 1 in Colombia, 1 in the Czech Republic, 32 in France, 13 in Germany, 3 in Hong Kong, 946 in India, 8 in Italy, 4 in Japan, 2 in Mexico, 9 in the Netherlands, 1 in the Philippines, 4 in Poland, 3 in Russia, 3 in Singapore, 2 in South Africa, 5 in Spain, 1 Saudi Arabia, 6 in the United Arab Emirates, and 26 in the United Kingdom).

In accordance with the permitted methodology for determining the “median employee”, we re-identified the “median employee” for the 2020 fiscal year due to the change in employee population. We excluded all non-U.S. employees (other than those located in France, Germany, India, and the United Kingdom) from our calculations under the de minimis exclusion to the extent the aggregate did not exceed 5% of our total employee population. We then compared the base salaries paid, bonuses earned, and equity awards granted to our 1,424 employees in the U.S., France, Germany, India, and the United Kingdom (which consisted of 407 U.S. employees and 1,017 non-U.S. employees) in 2020 to determine the median employee. Once we identified our median employee, we calculated the employee’s annual total compensation as though the median employee was reported in the 2020 Summary Compensation Table in accordance with the requirements of Item 402(c)(2)(x) of SEC Regulation S-K, yielding the median annual total compensation disclosed above. With respect to the annual total compensation of Mr. Courtot, we used the amount reported in the “Total” column in the 2020 Summary Compensation Table included in this proxy statement.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock at April 12, 2021 for:

- each of our named executive officers;
- each of our directors;
- all of our current directors and executive officers as a group; and
- each person or group, who beneficially owned more than 5% of our common stock.

We have determined beneficial ownership in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Except as indicated by the footnotes below, we believe, based on information furnished to us, that the persons and entities named in the table below have sole voting and sole investment power with respect to all shares of common stock that they beneficially owned, subject to applicable community property laws.

Applicable percentage ownership is based on 39,191,859 shares of common stock outstanding at April 12, 2021. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of such person, we deemed to be outstanding all shares of common stock subject to options held by the person that are currently exercisable or exercisable within 60 days of April 12, 2021. However, we did not deem such shares outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Qualys, Inc., 919 East Hillsdale Boulevard, 4th Floor, Foster City, California 94404.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned
Named Executive Officers:		
Philippe F. Courtot (1)	5,604,245	14.2%
Joo Mi Kim (2)	6,181	*
Bruce K. Posey (3)	152,792	*
Sumedh S. Thakar (4)	408,332	1.0%
Melissa B. Fisher (5)	71,368	*
Non-Employee Directors:		
Sandra E. Bergeron (6)	24,346	*
Jeffrey P. Hank (7)	22,425	*
Gen. Peter Pace (8)	11,860	*
Wendy M. Pfeiffer (9)	3,452	*
Kristi M. Rogers (10)	29,705	*
John Zangardi	—	—
All current directors and executive officers as a group (10 persons) (11)	6,263,338	15.6%
5% Stockholders:		
BlackRock, Inc. (12)	4,628,732	11.8%
The Vanguard Group (13)	3,293,393	8.4%
Neuberger Berman Group LLC (14)	2,450,854	6.2%

* Represents beneficial ownership of less than 1%.

(1) Consists of (i) 5,156,645 shares of common stock held by Mr. Courtot, (ii) 347,600 shares of common stock subject to options exercisable within 60 days of April 12, 2021, and (iii) 100,000 shares of common stock held by Freya Anne Eduarte as custodian under the Uniform Gifts to Minors Act for Mr. Courtot's minor child.

(2) Consists of (i) 5,548 shares of common stock held by Ms. Kim and (ii) 633 shares of common stock issuable upon vesting of RSUs within 60 days of April 12, 2021.
(3) Consists of (i) 23,951 shares of common stock held by Mr. Posey, (ii) 7,297 shares of common stock issuable upon vesting of RSUs within 60 days of April 12, 2021, and (iii) 121,544 shares of common stock subject to options exercisable within 60 days of April 12, 2021.
(4) Consists of (i) 29,060 shares of common stock held by Mr. Thakar, (ii) 23,761 shares of common stock issuable upon vesting of RSUs within 60 days of April 12, 2021, and (iii) 355,511 shares of common stock subject to options exercisable within 60 days of April 12, 2021.
(5) Ms. Fisher left Qualys on May 29, 2020. The information provided is based on the last information known to Qualys.
(6) Consists of (i) 22,500 shares of common stock held by Ms. Bergeron and (ii) 1,846 shares of common stock issuable upon vesting of RSUs within 60 days of April 12, 2021.
(7) Consists of (i) 8,579 shares of common stock held by Mr. Hank, (ii) 1,846 shares of common stock issuable upon vesting of RSUs within 60 days of April 12, 2021, and (iii) 12,000 shares of common stock subject to options exercisable within 60 days of April 12, 2021.
(8) Consists of (i) 10,014 shares of common stock held by Gen. Pace and (ii) 1,846 shares of common stock issuable upon vesting of RSUs within 60 days of April 12, 2021.
(9) Consists of (i) 1,606 shares of common stock held by Ms. Pfeiffer and (ii) 1,846 shares of common stock issuable upon vesting of RSUs within 60 days of April 12, 2021.
(10) Consists of (i) 4,859 shares of common stock held by Ms. Rogers, (ii) 1,846 shares of common stock issuable upon vesting of RSUs within 60 days of April 12, 2021, and (iii) 23,000 shares of common stock subject to options exercisable within 60 days of April 12, 2021.
(11) Includes (i) 40,921 shares of common stock issuable upon vesting of RSUs within 60 days of April 12, 2021, and (ii) 859,655 shares of common stock subject to options exercisable within 60 days of April 12, 2021.
(12) According to the information reported by BlackRock, Inc. (“BlackRock”) on a Schedule 13G/A filed on January 27, 2021, BlackRock beneficially owns an aggregate of 4,628,732 shares of our common stock, which consists of (i) 4,503,157 shares as to which it has sole voting power and (ii) 4,628,732 shares as to which it has sole dispositive power. The principal address of BlackRock is 55 East 52nd Street, New York, NY 10055.
(13) According to the information reported by The Vanguard Group (“Vanguard”) on a Schedule 13G/A filed on February 10, 2021, Vanguard beneficially owns an aggregate of 3,293,393 shares of our common stock, which consists of (i) 81,282 shares as to which it has shared voting power, (ii) 3,180,962 shares as to which it has sole dispositive power, and (iii) 112,431 shares as to which it has shared dispositive power. The principal address of Vanguard is 100 Vanguard Blvd., Malvern, PA 19355.
(14) According to the information reported by Neuberger Berman Group LLC (“Neuberger”) on a Schedule 13G/A filed on February 12, 2021, Neuberger beneficially owns an aggregate of 2,450,854 shares of our common stock, which consists of (i) 2,428,686 shares as to which it has shared voting power and (ii) 2,450,854 shares as to which it has shared dispositive power. The principal address of Neuberger is 1290 Avenue of the Americas, New York, NY 10104.

RELATED PERSON TRANSACTIONS

We describe below transactions and series of similar transactions, since the beginning of last year, to which we were a party or will be a party, in which:

- the amounts involved exceeded or will exceed $120,000; and
- any of our directors, executive officers, or beneficial holders of more than 5% of any class of our capital stock had or will have a direct or indirect material interest.

Other than as described below, there have not been, nor are there any currently proposed, transactions or series of similar transactions to which we have been or will be a party.

Certain Family Relationships

In 2020, Nicolas Courtot, son of Philippe Courtot, our Chairman and Former Chief Executive Officer, was employed by us as VP, Brand & Creative. During 2020, Nicolas Courtot earned total compensation of $378,583, consisting of base salary, bonus and equity compensation. In addition, Nicolas Courtot participated in our employee benefit plans and arrangements which are generally made available to other employees at his level, including employee equity incentive and benefit plans, including health, vacation, Section 401(k) retirement savings plans and insurance plans. The compensation of Nicolas Courtot was established in accordance with our employment and compensation practices applicable to employees with equivalent qualifications, experience and responsibilities.

The agreements and transactions described under this section were reviewed and approved or ratified by the audit committee of our board of directors in accordance with our related party transaction policy described below.

Policies and Procedures for Related Party Transactions

The audit committee of our board of directors has the primary responsibility for reviewing and approving or ratifying transactions with related parties.

We have a formal written policy providing that our executive officers, directors, nominees for election as directors, beneficial owners of more than 5% of any class of our common stock, any member of the immediate family of any of the foregoing persons, and any firm, corporation, or other entity in which any of the foregoing persons is employed, is a general partner or principal or in a similar position, or in which such person has a 5% or greater beneficial ownership interest, are/is not permitted to enter into a related party transaction with us without the consent of our audit committee. In approving or rejecting any such proposal, our audit committee is to consider the relevant facts and circumstances available and deemed relevant to our audit committee, including, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, and the extent of the related party’s interest in the transaction.

OTHER MATTERS

Delinquent Section 16(a) Reports

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our executive officers and directors, and persons who own more than 10% of our common stock, file reports of ownership and changes of ownership with the SEC. Such directors, executive officers and 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

SEC regulations require us to identify in this proxy statement anyone who filed a required report late during the most recent year. Based on our review of forms we received, or written representations from reporting persons stating that they were not required to file these forms, we believe that during 2020, all Section 16(a) filing requirements were satisfied on a timely basis, except (1) on June 23, 2020, Jeffrey Hank filed a late Form 4 to report one transaction that took place on June 10, 2020, and (2) on May 4, 2020, Philippe Courtot filed a late Form 4 to report one transaction that took place on March 1, 2020.

2020 Annual Report and SEC Filings

Our financial statements for the year ended December 31, 2020 are included in our annual report on Form 10-K, which we will make available to stockholders at the same time as this proxy statement. Our annual report and this proxy statement are posted on our website at www.qualys.com and are available from the SEC at its website at www.sec.gov. You may also obtain a copy of our annual report without charge by sending a written request to Investor Relations, Qualys, Inc., 919 East Hillsdale Boulevard, 4th Floor, Foster City, California 94404.

* * *

Our board of directors does not know of any other matters to be presented at the Annual Meeting. If any additional matters are properly presented at the Annual Meeting, the persons named in the enclosed proxy card will have discretion to vote shares they represent in accordance with their own judgment on such matters.

It is important that your shares be represented at the Annual Meeting, regardless of the number of shares that you hold. You are, therefore, urged to vote by telephone or by using the Internet as instructed on the enclosed proxy card or execute and return, at your earliest convenience, the enclosed proxy card in the envelope that has also been provided.

THE BOARD OF DIRECTORS

Foster City, California
April 22, 2021

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APPENDIX A

QUALYS, INC.
2021 EMPLOYEE STOCK PURCHASE PLAN

(As Adopted by the Board of Directors of the Company on April 19, 2021,
and approved by the stockholders of the Company on [●], 2021)

1. Definitions.

(a) "Administrator" means the Committee or, subject to Applicable Law, a subcommittee of the Committee or one or more of the Company's officers or management team appointed by the Board or Committee to administer the day-to-day operations of the Plan.

(b) "Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 promulgated under the Exchange Act. The Board shall have the authority to determine the time or times at which "Affiliate" status is determined within the foregoing definition.

(c) "Applicable Law" means the requirements relating to the administration of equity-based awards under state corporate laws, U.S. federal and state securities laws, the Code, the rules of any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any non-U.S. jurisdiction where rights are, or will be, granted under the Plan.

(d) "Board" means the board of directors of the Company.

(e) "Code" means the U.S. Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or U.S. Treasury Regulation thereunder shall include such section or regulation, any regulation or other official applicable guidance promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(f) "Committee" means the Compensation Committee of the Board or any properly delegated subcommittee thereof. If no Compensation Committee or subcommittee thereof exists, the term "Committee" shall be deemed to refer to the Board for all purposes under the Plan.

(g) "Common Stock" means the common stock, $0.001 par value, of the Company, as the same may be converted, changed, reclassified or exchanged.

(h) "Company" means Qualys, Inc., a Delaware corporation, or any successor to all or substantially all of the Company's business that adopts the Plan.

(i) "Contributions" means the amount of Eligible Pay contributed by a Participant through payroll deductions or other payments that the Administrator may permit a Participant to make to fund the exercise of rights to purchase Shares granted pursuant to the Plan.

(j) "Corporate Transaction" means the disposition of all or substantially all of the assets or outstanding capital stock of the Company by means of a sale, merger, or reorganization in which the Company will not be the surviving corporation (other than a reorganization effected primarily to change the State in which the Company is incorporated, a merger or consolidation with a wholly-owned Subsidiary, or any other transaction in which there is no substantial change in the shareholders of the Company or their relative stock holdings, regardless of whether the Company is the surviving corporation).

(k) “Designated Company” means any Parent, Subsidiary or Affiliate, whether now existing or existing in the future, that has been designated by the Administrator from time to time in its sole discretion as eligible to participate in the Plan. The Administrator may designate any Parent, Subsidiary or Affiliate as a Designated Company in a Non-423 Offering. For purposes of a Section 423 Offering, only the Company and any Parent or Subsidiary may be Designated Companies; provided, however, that at any given time, a Parent or Subsidiary that is a Designated Company under a Section 423 Offering shall not be a Designated Company under a Non-423 Offering.

(l) “Eligible Employee” means any person providing services to the Company or a Designated Company in an employee-employer relationship who meets such other initial service requirement specified by the Administrator pursuant to Section 5(c)(A). For purposes of clarity, the term “Eligible Employee” shall not include the following, regardless of any subsequent reclassification as an employee by the Company or a Designated Company, any governmental agency, or any court: (i) any independent contractor; (ii) any consultant; (iii) any individual performing services for the Company or a Designated Company who has entered into an independent contractor or consultant agreement with the Company or a Designated Company; (iv) any individual performing services for the Company or a Designated Company under a purchase order, a supplier agreement or any other agreement that the Company or a Designated Company enters into for services; (v) any individual classified by the Company or a Designated Company as contract labor (such as contractors, contract employees, job shoppers), regardless of length of service; (vi) any individual whose base wage or salary is not processed for payment by the payroll department(s) or payroll provider(s) of the Company or a Designated Company; and (vii) any leased employee within the meaning of Code Section 414(n), including such persons leased from a professional employer organization. The Administrator shall have exclusive discretion to determine whether an individual is an Eligible Employee for purposes of the Plan.

(m) “Eligible Pay” means the following amounts paid by the Company or any Parent, Subsidiary or Affiliate to the Eligible Employee (other than amounts paid after termination of employment date, even if such amounts are paid for pre-termination date services), *including* (i) base salary or wages (including 13th/14th month payments or similar concepts under local law, whether such payments are characterized as base salary, bonus or otherwise under local law), and (ii) any portion of such amounts voluntarily deferred or reduced by the Eligible Employee (A) under any employee benefit plan of the Company or a Parent, Subsidiary or Affiliate available to all levels of employees on a non-discriminatory basis upon satisfaction of eligibility requirements, and (B) under any deferral plan of the Company (provided such amounts would not otherwise have been excluded had they not been deferred); but *excluding* (iii) relocation pay, severance payments, cash allowances for a stated purpose (such as a medical or car allowance), income derived from stock options, stock appreciation rights, restricted stock units or other equity-based awards, the cost of employee benefits paid for by the Company, imputed income arising under any Company group insurance or benefit program, contributions made by the Company under any employee benefit plan, and similar items of compensation. For Eligible Employees in the U.S., Eligible Pay shall include elective amounts that are not includible in gross income of the Eligible Employee by reason of Sections 125, 132(f)(4), 402(e)(3), 402(h) or 403(b) of the Code. The Administrator shall have discretion to determine the application of this definition to Eligible Employees outside the U.S.

(n) “Enrollment Period” means the period during which an Eligible Employee may elect to participate in the Plan, with such period occurring before the first day of each Offering Period, as prescribed by the Administrator.

(o) “Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended, or any successor law thereto, and the regulations promulgated thereunder.

(p) “Fair Market Value” means, as of any given date, (i) the closing sales price for the Common Stock on the Trading Day immediately prior to the applicable date as quoted on the Nasdaq

Global Select Market or, if no sale occurred on such date, the closing price reported for the first Trading Day immediately prior to such date during which a sale occurred; or (ii) if the Common Stock is not traded on an exchange but is regularly quoted on a national market or other quotation system, the closing sales price on the Trading Day immediately prior to such date as quoted on such market or system, or if no sales occurred on such date, then on the Trading Day immediately prior to such date on which sales prices are reported; or (iii) in the absence of an established market for the Common Stock of the type described in (i) or (ii) of this Section 1(q), the fair market value established by the Committee acting in good faith.

(q) "Non-423 Offering" has the meaning ascribed to it in Section 2.

(r) "Offering" means a Section 423 Offering or a Non-423 Offering of a right to purchase Shares under the Plan during an Offering Period as further described in Section 6. Unless otherwise determined by the Administrator, each Offering under the Plan in which Eligible Employees of one or more Designated Companies may participate shall be deemed a separate offering for purposes of Section 423 of the Code, even if the dates of the applicable Offering Periods of each such Offering are identical, and the provisions of the Plan shall separately apply to each Offering. With respect to Section 423 Offerings, the terms of separate Offerings need not be identical provided that all Eligible Employees granted purchase rights in a particular Offering shall have the same rights and privileges, except as otherwise may be permitted by Code Section 423; a Non-423 Offering need not satisfy such requirements.

(s) "Offering Period" means the periods established in accordance with Section 6 during which rights to purchase Shares may be granted pursuant to the Plan and Shares may be purchased on one or more Purchase Dates. The duration and timing of Offering Periods may be changed pursuant to Sections 6 and 17.

(t) "Parent" means a parent corporation of the Company, whether now or hereafter existing, as "parent corporation" is defined in Section 424(e) of the Code.

(u) "Participant" means an Eligible Employee who elects to participate in the Plan.

(v) "Plan" means this Qualys, Inc. 2021 Employee Stock Purchase Plan, as may be amended from time to time.

(w) "Purchase Date" means the last Trading Day of each Purchase Period (or such other Trading Day as the Administrator may determine).

(x) "Purchase Period" means a period of time within an Offering Period, as may be specified by the Administrator in accordance with Section 6, generally beginning on the first Trading Day of each Offering Period and ending on a Purchase Date. An Offering Period may consist of one or more Purchase Periods.

(y) "Purchase Price" means the purchase price at which Shares may be acquired on a Purchase Date and which shall be set by the Administrator; provided, however, that the Purchase Price for a Section 423 Offering shall not be less than eighty-five percent (85%) of the lesser of (i) the Fair Market Value of the Shares on the first Trading Day of the Offering Period or (ii) the Fair Market Value of the Shares on the Purchase Date. Unless otherwise determined by the Administrator prior to the commencement of an Offering Period, the Purchase Price shall be eighty-five percent (85%) of the lesser of (A) the Fair Market Value of the Shares on the first Trading Day of the Offering Period or (B) the Fair Market Value of the Shares on the Purchase Date.

(z) "Section 423 Offering" has the meaning ascribed to it in Section 2.

(aa) "Shares" means the shares of Common Stock.

(bb) "Subsidiary" means a subsidiary corporation of the Company, whether now or hereafter existing, as "subsidiary corporation" is defined in Section 424(f) of the Code.

(cc) "Tax-Related Items" means any U.S. federal, state, and/or local taxes and/or any non-U.S. taxes (including, without limitation, income tax, social insurance contributions (or similar contributions), payroll tax, fringe benefits tax, payment on account, employment tax, stamp tax and any other tax or tax-related item arising in relation to the Participant's participation in the Plan and legally applicable to a Participant, including any employer liability for which the Participant is liable pursuant to Applicable Laws or an agreement entered into under the Plan.

(dd) "Trading Day" means a day on which the principal exchange that Shares are listed on is open for trading.

(ee) "U.S." means the United States of America.

2. Purpose of the Plan. The purpose of the Plan is to provide an opportunity for Eligible Employees of the Company and its Designated Companies to purchase Common Stock at a discount through voluntary Contributions, thereby attracting, retaining and rewarding such persons and strengthening the mutuality of interest between such persons and the Company's stockholders. The Company intends for offerings under the Plan to qualify as an "employee stock purchase plan" under Section 423 of the Code (each, a "Section 423 Offering"); provided, however, that the Administrator may also authorize the grant of rights under offerings of the Plan that are not intended to comply with the requirements of Section 423 of the Code, pursuant to any rules, procedures, agreements, appendices, or sub-plans adopted by the Administrator for such purpose (each, a "Non-423 Offering").

3. Number of Reserved Shares. Subject to adjustment pursuant to Section 16 hereof, Six Hundred Thousand (600,000) Shares may be sold pursuant to the Plan. Such Shares may be authorized but unissued Shares, treasury Shares or Shares purchased in the open market. For avoidance of doubt, up to the maximum number of Shares reserved under this Section 3 may be used to satisfy purchases of Shares under Section 423 Offerings and any remaining portion of such maximum number of Shares may be used to satisfy purchases of Shares under Non-423 Offerings. For the avoidance of doubt, Shares withheld to satisfy Tax-Related Items shall not reduce the number of Shares available for sale pursuant to the Plan and shall again be made available for sale pursuant to the Plan.

4. Administration of the Plan.

(a) Committee as Administrator. The Plan shall be administered by the Committee. Notwithstanding anything in the Plan to the contrary, subject to Applicable Law, any authority or responsibility that, under the terms of the Plan, may be exercised by the Committee may alternatively be exercised by the Board. Subject to Applicable Law, no member of the Board or Committee (or its delegates) shall be liable for any good faith action or determination made in connection with the operation, administration or interpretation of the Plan. In the performance of its responsibilities with respect to the Plan, the Committee shall be entitled to rely upon, and no member of the Committee shall be liable for any action taken or not taken in reliance upon, information and/or advice furnished by the Company's officers or employees, the Company's accountants, the Company's counsel and any other party that the Committee deems necessary.

(b) Powers of the Administrator. The Administrator shall have full power and authority to administer the Plan, including, without limitation, the authority to (i) construe, interpret, reconcile any inconsistency in, correct any default in and supply any omission in, and apply the terms of the Plan and any enrollment form or other instrument or agreement relating to the Plan, (ii) determine eligibility and adjudicate all disputed claims filed under the Plan, including whether Eligible Employees will participate in a Section 423 Offering or a Non-423 Offering and which Subsidiaries and Affiliates of the Company (or Parent, if applicable) will be Designated Companies participating in either a Section 423 Offering or a Non-423 Offering (within the limits of the Plan), (iii) determine the terms and conditions of any right to purchase Shares under the Plan, (iv) establish, amend, suspend or waive such rules and regulations and appoint such agents as it deems appropriate for the proper administration of the Plan, (v) amend an outstanding right to purchase Shares, including any amendments to a right that may be necessary for purposes of effecting a transaction contemplated under Section 16 hereof (including, but not limited to, an amendment to the class or type of stock that may be issued pursuant to the exercise of a right or the Purchase Price applicable to a right), provided that the amended right otherwise conforms to the terms of the Plan, and (vi) make any other determination and take any other action that the Administrator deems necessary or desirable for the administration of the Plan, including, without limitation, the adoption of any such rules, procedures, agreements, appendices, or sub-plans (collectively, “Sub-Plans”) as are necessary or appropriate to permit the participation in the Plan by employees who are citizens or residents in jurisdictions other than the U.S. or employed outside the U.S., as further set forth in Section 4(c) below.

(c) Non-U.S. Sub-Plans. Notwithstanding any provision to the contrary in this Plan, the Administrator may adopt such Sub-Plans relating to the operation and administration of the Plan to accommodate local laws, customs and procedures for jurisdictions outside of the U.S., the terms of which Sub-Plans may take precedence over other provisions of this Plan, with the exception of Section 3 hereof, but unless otherwise superseded by the terms of such Sub-Plan, the provisions of this Plan shall govern the operation of such Sub-Plan. To the extent inconsistent with the requirements of Section 423, any such Sub-Plan shall be considered part of a Non-423 Offering, and purchase rights granted thereunder shall not be required by the terms of the Plan to comply with Section 423 of the Code. Without limiting the generality of the foregoing, the Administrator is authorized to adopt Sub-Plans for particular non-U.S. jurisdictions that modify the terms of the Plan to meet applicable local requirements, customs or procedures regarding, without limitation, (i) eligibility to participate, (ii) the definition of Eligible Pay, (iii) the dates and duration of Offering Periods or other periods during which Participants may make Contributions towards the purchase of Shares, (iv) the method of determining the Purchase Price and the discount from Fair Market Value at which Shares may be purchased, (v) any minimum or maximum amount of Contributions a Participant may make in an Offering Period or other specified period under the applicable Sub-Plan, (vi) the treatment of purchase rights upon a Corporate Transaction or a change in capitalization of the Company, (vii) the handling of payroll deductions and the methods for making Contributions by means other than payroll deductions, (viii) establishment of bank, building society or trust accounts to hold Contributions, (ix) payment of interest, (x) conversion of local currency, (xi) obligations to pay payroll tax, (xii) determination of beneficiary designation requirements, (xiii) withholding procedures, and (xiv) handling of Share issuances.

(d) Binding Authority. All determinations by the Administrator in carrying out and administering the Plan and in construing and interpreting the Plan and any enrollment form or other instrument or agreement relating to the Plan shall be made in the Administrator’s sole discretion and shall be final, binding and conclusive for all purposes and upon all interested persons.

(e) Delegation of Authority. To the extent not prohibited by Applicable Law, the Committee may, from time to time, delegate some or all of its authority under the Plan to a subcommittee or subcommittees of the Committee, to one or more of the other parties comprising the “Administrator” hereunder, or to other persons or groups of persons as it deems necessary, appropriate or advisable under conditions or limitations that it may set at or after the time of the delegation. For purposes of the Plan, reference to the Administrator shall be deemed to include any subcommittee, subcommittees, or other persons or groups of persons to whom the Committee delegates authority pursuant to this Section 4(e).

5. Eligible Employees.

(a) General. Any individual who is an Eligible Employee as of the commencement of an Offering Period shall be eligible to participate in the Plan, subject to the requirements of Section 7.

(b) Non-U.S. Employees. An Eligible Employee who works for a Designated Company and is a citizen or resident of a jurisdiction other than the U.S. (without regard to whether such individual also is a citizen or resident of the U.S. or is a resident alien (within the meaning of Section 7701(b)(1)(A) of the Code)) may be excluded from participation in the Plan or an Offering if the participation of such Eligible Employee is prohibited under the laws of the applicable jurisdiction or if complying with the laws of the applicable jurisdiction would cause the Plan or a Section 423 Offering to violate Section 423 of the Code. In the case of a Non-423 Offering, an Eligible Employee (or group of Eligible Employees) may be excluded from participation in the Plan or an Offering if the Administrator has determined, in its sole discretion, that participation of such Eligible Employee(s) is not advisable or practicable for any reason.

(c) Limitations. Notwithstanding any provisions of the Plan to the contrary, no Eligible Employee shall be granted a right to purchase Shares under a Section 423 Offering (i) to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding rights to purchase capital stock possessing five percent (5%) or more of the combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase capital stock under all employee stock purchase plans of the Company and any Parent and Subsidiaries accrues at a rate that exceeds Twenty-Five Thousand Dollars (US$25,000) worth of such stock (determined at the fair market value of the shares of such stock at the time such right is granted) for each calendar year in which such purchase right is outstanding. The Administrator, in its discretion, from time to time may, prior to an Enrollment Period for all purchase rights to be granted in an Offering, determine (on a uniform and nondiscriminatory basis for Section 423 Offerings) that the definition of Eligible Employee will or will not include an individual if he or she: (A) has not completed at least two (2) years of service since his or her last hire date (or such lesser period of time as may be determined by the Administrator in its discretion), (B) customarily works not more than twenty (20) hours per week (or such lesser period of time as may be determined by the Administrator in its discretion), (C) customarily works not more than five (5) months per calendar year (or such lesser period of time as may be determined by the Administrator in its discretion), (D) is a highly compensated employee within the meaning of Section 414(q) of the Code, or (E) is a highly compensated employee within the meaning of Section 414(q) of the Code with compensation above a certain level or who is an officer or subject to the disclosure requirements of Section 16(a) of the Exchange Act, provided the exclusion is applied with respect to each Section 423 Offering in an identical manner to all highly compensated individuals of the Designated Company whose employees are participating in that Offering.

6. Offering Periods. The Plan shall be implemented by consecutive or overlapping Offering Periods, as specified by the Administrator, with a new Offering Period commencing on the first Trading Day of the relevant Offering Period and terminating on the last Trading Day of the relevant Offering Period. The Offering Periods shall (a) consist of one or more Purchase Periods of a duration specified by the Administrator, and (b) be of a duration, and commence on the dates, specified by the Administrator prior to the scheduled beginning of the applicable Offering Period, provided that each Offering Period may not have a duration exceeding twenty-seven (27) months. For the avoidance of any doubt, the Administrator has authority to establish the terms that shall apply to the Offering Periods in accordance with the provisions contemplated in this Section 6 without stockholder approval. To the extent that the Administrator establishes Offering Periods with multiple Purchase Periods or overlapping Offering Periods, in each case, with a Purchase Price based (in part) on the Fair Market Value of a Share on the first Trading Day of an Offering Period, the Administrator shall have discretion

to structure an Offering Period so that if the Fair Market Value of a Share on the first Trading Day of the Offering Period in which a Participant is currently enrolled is higher than the Fair Market Value of a Share on the first Trading Day of any subsequent Offering Period, the Company shall automatically enroll such Participant in the subsequent Offering Period and shall terminate his or her participation in such original Offering Period.

7. Election to Participate and Payroll Deductions. An Eligible Employee may elect to participate in an Offering under the Plan during any Enrollment Period. Any such election shall be made by completing the online enrollment process through the Company's designated Plan broker or, to the extent specified by the Administrator, by completing and submitting an enrollment form to the Administrator during such Enrollment Period, authorizing Contributions in whole percentages from one percent (1%) to fifteen percent (15%) of the Eligible Employee's Eligible Pay for the Purchase Period within the Offering Period to which the deduction applies. A Participant may elect to increase or decrease the rate of such Contributions during any subsequent Enrollment Period by submitting the appropriate form online through the Company's designated Plan broker or, to the extent specified by the Administrator, to the Administrator, provided that no change in Contributions shall be permitted to the extent that such change would result in total Contributions exceeding fifteen percent (15%) of the Eligible Employee's Eligible Pay, or such other maximum amount as may be determined by the Administrator with respect to a subsequent Offering Period. During a Purchase Period, a Participant may not increase or decrease his or her rate of Contributions, except as contemplated in the following sentence. A Participant may reduce the rate of his or her Contributions to zero percent (0%) at any time during the Purchase Period, provided that any such reduction shall result in the automatic withdrawal of the Participant from the Plan as provided under Section 14 hereof and the Participant shall not again be eligible to participate in the Plan until the next Enrollment Period. Once an Eligible Employee elects to participate in an Offering Period, then such Participant shall automatically participate in the Offering Period commencing immediately following the last day of such prior Offering Period at the same rate of Contributions as was in effect in the prior Offering Period unless the Participant elects to increase or decrease the rate of Contributions or withdraws or is deemed to withdraw from this Plan as described above in this Section 7. A Participant who is automatically enrolled in a subsequent Offering Period pursuant to this Section 7 is not required to file any additional documentation in order to continue participation in the Plan; provided, however, that participation in the subsequent Offering Period shall be governed by the terms and conditions of the Plan in effect at the beginning of such Offering Period, subject to the Participant's right to withdraw from the Plan in accordance with Section 14 below. The Administrator has the authority to change the rules set forth in this Section 7 regarding participation in the Plan.

8. Contributions. The Company shall establish an account in the form of a bookkeeping entry for each Participant for the purpose of tracking Contributions made by each Participant during the Offering Period, and shall credit all Contributions made by each Participant to such account. The Company shall not be obligated to segregate the Contributions from the general funds of the Company or any Designated Company nor shall any interest be paid on such Contributions, unless otherwise determined by the Administrator or required by Applicable Law. All Contributions received by the Company for Shares sold by the Company on any Purchase Date pursuant to this Plan may be used for any corporate purpose.

9. Limitation on Number of Shares That an Employee May Purchase. Subject to the limitations set forth in Section 5(c), each Participant shall have the right to purchase as many whole Shares as may be purchased with the Contributions credited to his or her account as of the last day of the Offering Period (or such other date as the Administrator may determine) at the Purchase Price applicable to such Offering Period; provided, however, that a Participant may not purchase in excess of Five Hundred (500) Shares under the Plan per Offering Period or such other maximum number of Shares as may be established for an Offering Period by the Administrator (in each case subject to adjustment pursuant to Section 16 hereof). Any amount remaining in a Participant's account that was not applied to the purchase of Shares on a Purchase Date because it was not sufficient to purchase a

whole Share shall be carried forward for the purchase of Shares on the following Purchase Date. However, any amounts not applied to the purchase of Shares during an Offering Period for any reason other than as described in the foregoing sentence shall not be carried forward to any subsequent Offering Period and shall instead be refunded, without interest, as soon as practicable following the Purchase Date, except as otherwise determined by the Administrator or required by Applicable Law.

10. Taxes. At the time a Participant's purchase right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the Shares acquired under the Plan, or at the time of any other taxable event, the Participant shall make adequate provision for any Tax-Related Items. In their sole discretion, the Company or the Designated Company that employs the Participant may satisfy any obligation to withhold Tax-Related Items by (a) withholding from the Participant's wages or other compensation, (b) withholding a number of Shares otherwise issuable in connection with the purchase of Shares under the Plan, (c) withholding from proceeds from the sale of Shares issued upon purchase, either through a voluntary sale or a mandatory sale arranged by the Company, (d) requiring the Participant to make a cash payment (by check or wire transfer) to the Company or another Designated Company equal to the amount of the Tax-Related Items, or (e) any other method determined by the Company that is permissible under Applicable Law.

11. Brokerage Accounts or Plan Share Accounts. By enrolling in the Plan, each Participant shall be deemed to have authorized the establishment of a brokerage account on his or her behalf at a securities brokerage firm selected by the Administrator. Alternatively, the Administrator may provide for Plan share accounts for each Participant to be established by the Company or by an outside entity selected by the Administrator which is not a brokerage firm. Shares purchased by a Participant pursuant to the Plan shall be held in the Participant's brokerage or Plan share account. The Company may require that Shares be retained in such brokerage or Plan share account for a designated period of time, and/or may establish procedures to permit tracking of dispositions of Shares.

12. Rights as a Stockholder. A Participant shall have no rights as a stockholder with respect to Shares subject to any rights granted under this Plan or any Shares deliverable under this Plan unless and until recorded in the books of the brokerage firm selected by the Administrator or, as applicable, the Company, its transfer agent, stock plan administrator or such other outside entity which is not a brokerage firm.

13. Rights Not Transferable. Rights granted under this Plan are not transferable by a Participant other than by will or the laws of descent and distribution, and are exercisable during a Participant's lifetime only by the Participant.

14. Withdrawals. A Participant may withdraw from an Offering by submitting the appropriate form online through the Company's designated Plan broker or, to the extent determined by the Administrator, to the Administrator. A notice of withdrawal must be received no later than the last day of the month immediately preceding the month of the Purchase Date or by such other deadline as may be prescribed by the Administrator. Upon receipt of such notice, automatic deductions of Contributions on behalf of the Participant shall be discontinued commencing with the payroll period immediately following the effective date of the notice of withdrawal, and such Participant shall not be eligible to participate in the Plan until the next Enrollment Period. Any Contributions credited to the account of any Participant who withdraws from an Offering according to the procedures and timing set forth in this Section 14 shall be refunded as soon as practicable without interest, except as otherwise determined by the Administrator or required by Applicable Law.

15. Termination of Employment; Leave of Absence.

(a) General. Upon a Participant ceasing to be an Eligible Employee for any reason prior to a Purchase Date, Contributions for such Participant shall be discontinued and any Contributions then credited to the Participant's account shall be refunded as soon as practicable, without interest, except as otherwise determined by the Administrator or required by Applicable Law.

(b) Leave of Absence. Subject to the discretion of the Administrator, if a Participant is granted a paid leave of absence, payroll deductions on behalf of the Participant shall continue and any Contributions credited to the Participant's account may be used to purchase Shares as provided under the Plan. If a Participant is granted an unpaid leave of absence, payroll deductions on behalf of the Participant shall be discontinued and no other Contributions shall be permitted (unless otherwise determined by the Administrator (on a uniform and nondiscriminatory basis for Section 423 Offerings) or required by Applicable Law), but any Contributions then credited to the Participant's account may be used to purchase Shares on the next applicable Purchase Date. Where the period of leave exceeds three (3) months and the Participant's right to reemployment is not guaranteed by statute or by contract, for purposes of Section 423 Offerings, the employment relationship shall be deemed to have terminated three (3) months and one (1) day following the commencement of such leave.

(c) Transfer of Employment. Unless otherwise determined by the Administrator or required by Applicable Law, a Participant whose employment transfers or whose employment terminates with an immediate rehire (with no break in service) by or between the Company or a Designated Company shall not be treated as having terminated employment for purposes of participating in the Plan or an Offering; however, if a Participant transfers from a Section 423 Offering to a Non-423 Offering, the exercise of the Participant's purchase right will be qualified under the Section 423 Offering only to the extent that such exercise complies with Code Section 423. If a Participant transfers from a Non-423 Offering to a Section 423 Offering, the exercise of the Participant's purchase right will remain non-qualified under the Non-423 Offering. The Administrator may establish additional or different rules to govern transfers of employment for purposes of participation in the Plan or an Offering, consistent with the applicable requirements of Section 423 of the Code.

16. Adjustment Provisions.

(a) Changes in Capitalization. In the event of any change affecting the number, class, value, or terms of the shares of Common Stock resulting from a recapitalization, stock split, reverse stock split, stock dividend, spinoff, split up, combination, reclassification or exchange of Shares, merger, consolidation, rights offering, separation, reorganization or liquidation or any other change in the corporate structure or Shares, including any extraordinary dividend or extraordinary distribution (but excluding any regular cash dividend), then the Committee, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, shall, in such manner as it may deem equitable, adjust the number and class of Common Stock that may be delivered under the Plan (including the numerical limits of Sections 3 and 9), the Purchase Price per Share and the number of shares of Common Stock covered by each right under the Plan that has not yet been exercised. For the avoidance of doubt, the Committee may not delegate its authority to make adjustments pursuant to this Section 16(a). Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to a purchase right.

(b) Corporate Transaction. In the event of a Corporate Transaction, each outstanding right to purchase Shares shall be equitably adjusted and assumed or an equivalent right to purchase Shares substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation in a Corporate Transaction refuses to assume or substitute for the purchase right or the successor corporation is not a publicly traded corporation, the Offering Period then in progress shall be shortened by setting a New Purchase Date and shall end on the New Purchase Date. The "New Purchase Date" shall be a Trading Day determined by the Administrator, in its discretion, which occurs before the date of the consummation of the Company's proposed Corporate Transaction. The Administrator shall notify each Participant in writing, at least ten (10) Trading Days prior to the New Purchase Date (or such other date as may be specified by the Administrator), that the Purchase Date for the Participant's purchase right has been changed to the New Purchase Date and that Shares shall be purchased automatically for the Participant on the New Purchase Date, unless the Participant has withdrawn from the Offering prior to such date, as provided in Section 14 hereof.

17. Amendments and Termination of the Plan. The Board or the Committee may amend the Plan at any time, provided that if stockholder approval is required pursuant to Applicable Law, then no such amendment shall be effective unless approved by the Company's stockholders within such time period as may be required. The Board may suspend the Plan or discontinue the Plan at any time, including shortening an Offering Period in connection with a spin-off or other similar corporate event. Upon termination of the Plan, all Contributions shall cease and all Contributions then credited to a Participant's account shall be equitably applied to the purchase of whole Shares then available for sale, and any remaining amounts shall be promptly refunded, without interest (unless required by Applicable Law), to Participants. For the avoidance of doubt, the Board or Committee, as applicable herein, may not delegate its authority to make amendments to or suspend the operation of the Plan pursuant to this Section 17.

18. Stockholder Approval; Effective Date; Plan Term. The Plan shall be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval shall be obtained in the manner and to the degree required under Applicable Law. The Plan shall become effective on the date that stockholder approval of the Plan, as contemplated in this Section 18, is obtained, and shall continue in effect until it expires on the tenth (10th) anniversary of the effective date of the Plan, unless terminated earlier in accordance with Section 17 hereof. Any Offering Periods that are outstanding upon the expiration of the Plan shall continue in effect in accordance with their terms through the final Purchase Period in the outstanding Offering Period.

19. Conditions Upon Issuance of Shares. Notwithstanding any other provision of the Plan, unless there is an available exemption from any registration, qualification or other legal or regulatory requirement applicable to the Shares, the Company shall not be required to deliver any Shares issuable upon exercise of a right under the Plan prior to (i) the completion of any registration or qualification of the Shares under any local, state, federal or non-U.S. securities or exchange control law or under rulings or regulations of any governmental regulatory body, or (ii) obtaining any approval or other clearance from any local, state, federal or non-U.S. governmental agency, which registration, qualification or approval the Administrator, in its absolute discretion, deems necessary or advisable. The Company is under no obligation to register or qualify the Shares with any state or non-U.S. securities commission or other governmental body, or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. If, pursuant to this Section 19, the Administrator determines that the Shares will not be issued to any Participant, any Contributions credited to such Participant's account shall be promptly refunded, without interest (unless required by Applicable Law), to the Participant, without any liability to the Company or any of its Subsidiaries or Affiliates (or any Parent, if applicable).

20. Code Section 409A; Tax Qualification.

(a) Code Section 409A. Rights to purchase Shares granted under a Section 423 Offering are exempt from the application of Section 409A of the Code and rights to purchase Shares granted under a

Non-423 Offering are intended to be exempt from Section 409A of the Code pursuant to the “short-term deferral” exemption contained therein. In furtherance of the foregoing and notwithstanding any provision in the Plan to the contrary, if the Administrator determines that a right granted under the Plan may be subject to Section 409A of the Code or that any provision in the Plan would cause a right under the Plan to be subject to Section 409A of the Code, the Administrator may amend the terms of the Plan and/or of an outstanding right granted under the Plan, or take such other action the Administrator determines is necessary or appropriate, in each case, without the Participant’s consent, to exempt any outstanding right or future right that may be granted under the Plan from or to allow any such rights to comply with Section 409A of the Code, but only to the extent any such amendments or action by the Administrator would not violate Section 409A of the Code. Notwithstanding the foregoing, the Company shall have no liability to a Participant or any other party if the right to purchase Shares under the Plan that is intended to be exempt from or compliant with Section 409A of the Code is not so exempt or compliant or for any action taken by the Administrator with respect thereto. The Company makes no representation that the right to purchase Shares under the Plan is compliant with Section 409A of the Code.

(b) Tax Qualification. Although the Company may endeavor to (i) qualify a right to purchase Shares for favorable tax treatment under the laws of the U.S. or jurisdictions outside of the U.S. or (ii) avoid adverse tax treatment (*e.g.*, under Section 409A of the Code), the Company makes no representation to that effect and expressly disavows any covenant to maintain favorable or avoid unfavorable tax treatment, notwithstanding anything to the contrary in this Plan, including Section 20(a) hereof. The Company shall be unconstrained in its corporate activities without regard to the potential negative tax impact on Participants under the Plan.

21. No Employment Rights. Participation in the Plan shall not be construed as giving any Participant the right to be retained as an employee of the Company, a Subsidiary, or one of its Affiliates or Parent, as applicable. Furthermore, if the Company, a Subsidiary, or an Affiliate (or Parent, if applicable) dismisses a Participant from employment, no liability or claim shall arise under the Plan.

22. Governing Law; Choice of Forum. Except to the extent that provisions of this Plan are governed by applicable provisions of the Code or any other substantive provision of U.S. federal law, this Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware without giving effect to the conflict of laws principles thereof. The Company and each Participant, as a condition to such Participant’s participation in the Plan, hereby irrevocably submit to the exclusive jurisdiction of any state or U.S. federal court located in the state of Delaware over any suit, action or proceeding arising out of or relating to or concerning the Plan. The Company and each Participant, as a condition to such Participant’s participation in the Plan, acknowledge that the forum designated by this Section 22 has a reasonable relation to the Plan and to the relationship between such Participant and the Company. Notwithstanding the foregoing, nothing in the Plan shall preclude the Company from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of this Section 22. The agreement by the Company and each Participant as to forum is independent of the law that may be applied in the action, and the Company and each Participant, as a condition to such Participant’s participation in the Plan, (i) agree to such forum even if the forum may under applicable law choose to apply non-forum law, (ii) hereby waive, to the fullest extent permitted by applicable law, any objection which the Company or such Participant now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding in any court referred to in this Section 22, (iii) undertake not to commence any action arising out of or relating to or concerning the Plan in any forum other than the forum described in this Section 22 and (iv) agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon the Company and each Participant.

23. Waiver of Jury Trial. Each Participant waives any right such Participant may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with the Plan.

24. Headings. Headings are given to the sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan.

25. Expenses. Unless otherwise set forth in the Plan or determined by the Administrator, all expenses of administering the Plan, including expenses incurred in connection with the purchase of Shares for sale to Participants, shall be borne by the Company and its Subsidiaries or Affiliates (or any Parent, if applicable).

APPENDIX B

Reconciliation of Non-GAAP Financial Measures

Qualys reports its financial results in accordance with generally accepted accounting principles in the United States ("GAAP"). However, management believes that certain non-GAAP financial measures provide users with additional meaningful financial information.

The non-GAAP measures presented in this proxy statement include non-GAAP earnings per share ("EPS"), Adjusted EBITDA, and free cash flow per share. Our calculation of these non-GAAP measures may not be comparable with similarly titled measures of other companies due to potential differences between companies in the method of calculation. As a result, the use of these non-GAAP measures has limitations and should not be considered superior to, in isolation from, or as a substitute for related GAAP measures. See our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, and our subsequent filings with the SEC for additional information about the non-GAAP measures presented herein, including a description of the use of such measures.

EARNINGS PER SHARE
(Unaudited)
(in thousands, except per share data)

	Twelve Months Ended December 31,	
	2020	**2019**
GAAP Net income	$ 91,572	$ 69,336
Plus: Stock-based compensation	40,035	34,892
Plus: Amortization of intangible assets	6,289	6,080
Less: Tax adjustment	(20,937)	(15,821)
Non-GAAP Net income	$116,959	$ 94,487
Non-GAAP Net income per share:		
Basic	$ 2.99	$ 2.42
Diluted	$ 2.87	$ 2.29
Weighted average shares used in non-GAAP net income per share:		
Basic	39,167	39,075
Diluted	40,823	41,345

ADJUSTED EBITDA
(Unaudited)
(in thousands)

	Twelve Months Ended December 31,	
	2020	2019
Net income	$ 91,572	$ 69,336
Depreciation and amortization of property and equipment	26,556	25,121
Amortization of intangible assets	6,289	6,080
Provision for income taxes	10,465	10,647
Stock-based compensation	40,035	34,892
Other income, net	(5,383)	(7,730)
Adjusted EBITDA	$169,534	$138,346

FREE CASH FLOW PER SHARE
(Unaudited)
(in thousands)

	Twelve Months Ended December 31,	
	2020	2019
GAAP Cash flows provided by operating activities	$180,086	$160,607
Less: Purchases of property and equipment, net of proceeds from disposal	(29,618)	(27,573)
Less: Principal payments under capital lease obligations	(114)	(1,709)
Non-GAAP Free cash flows	$150,354	$131,325
Free cash flow per share	$ 3.68	$ 3.18
Weighted average shares used in computing free cash flow per share:		
Diluted	40,823	41,345

Qualys, Inc.

2020 Annual Report

Annual Report

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Annual Period Ended December 31, 2020

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission file number 001-35662

QUALYS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**77-0534145**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

919 E. Hillsdale Boulevard, 4th Floor, Foster City, California 94404
(Address of principal executive offices, including zip code)

(650) 801-6100
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.001 par value per share	QLYS	NASDAQ Stock Market

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

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

Indicate by check mark whether the registrant has filed a report on and 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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2020, the aggregate market value of voting shares of common stock held by non-affiliates of the registrant was $3,501 million based on the last reported sale price of the registrant's common stock on June 30, 2020. Shares of common stock held by each executive officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock outstanding as of February 12, 2021 was 39,207,735 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2021 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2020.

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Qualys, Inc.

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RISK FACTOR SUMMARY

Our business is subject to significant risks and uncertainties that make an investment in us speculative and risky. Below we summarize what we believe are the principal risk factors but these risks are not the only ones we face, and you should carefully review and consider the full discussion of our risk factors in the section titled "Risk Factors," together with the other information in this Annual Report on Form 10-K. If any of the following risks actually occurs (or if any of those listed elsewhere in this Annual Report on Form 10-K occur), our business, reputation, financial condition, results of operations, revenue, and future prospects could be seriously harmed. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business.

- The continued spread of COVID-19, or any similar widespread infectious disease outbreak, could harm our business, financial condition and results of operations.
- Our quarterly operating results may vary from period to period, which could result in our failure to meet expectations with respect to operating results and cause the trading price of our stock to decline.
- If we do not successfully anticipate market needs and opportunities or are unable to enhance our solutions and develop new solutions that meet those needs and opportunities on a timely or cost-effective basis, we may not be able to compete effectively and our business and financial condition may be harmed.
- If we fail to continue to effectively scale and adapt our platform to meet the performance and other requirements of our customers, our operating results and our business would be harmed.
- If we are unable to renew existing subscriptions for our IT, security and compliance solutions, sell additional subscriptions for our solutions and attract new customers, our operating results would be harmed.
- If the market for cloud solutions for IT, security and compliance does not evolve as we anticipate, our revenues may not grow and our operating results would be harmed.
- Our current research and development efforts may not produce successful products or enhancements to our platform that result in significant revenue, cost savings or other benefits in the near future.
- Our platform, website and internal systems may be subject to intentional disruption or other security incidents that could result in liability and adversely impact our reputation and future sales.
- Our sales cycle can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, revenues may vary from period to period, which may cause our operating results to fluctuate and could harm our business.
- Adverse economic conditions or reduced IT spending may adversely impact our business.
- Our IT, security and compliance solutions are delivered from eight data centers, and any disruption of service at these facilities would interrupt or delay our ability to deliver our solutions to our customers which could reduce our revenues and harm our operating results.
- We face competition in our markets, and we may lack sufficient financial or other resources to maintain or improve our competitive position.
- If our solutions fail to detect vulnerabilities or incorrectly detect vulnerabilities, our brand and reputation could be harmed, which could have an adverse effect on our business and results of operations.

- If we are unable to continue the expansion of our sales force, sales of our solutions and the growth of our business would be harmed.
- We rely on third-party channel partners to generate a substantial amount of our revenues, and if we fail to expand and manage our distribution channels, our revenues could decline and our growth prospects could suffer.
- A significant portion of our customers, channel partners and employees are located outside of the United States, which subjects us to a number of risks associated with conducting international operations, and if we are unable to successfully manage these risks, our business and operating results could be harmed.
- Our business and operations have experienced significant growth, and if we do not appropriately manage any future growth, or are unable to improve our systems and processes, our operating results may be negatively affected.
- A portion of our revenues are generated by sales to government entities, which are subject to a number of challenges and risks.
- Undetected software errors or flaws in our solutions could harm our reputation, decrease market acceptance of our solutions or result in liability.
- Our solutions could be used to collect and store personal information of our customers' employees or customers, and therefore privacy and other data handling concerns could result in additional cost and liability to us or inhibit sales of our solutions.
- Our solutions contain third-party open source software components, and our failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our solutions.
- We use third-party software and data that may be difficult to replace or cause errors or failures of our solutions that could lead to lost customers or harm to our reputation and our operating results.
- Failure to protect our proprietary technology and intellectual property rights could substantially harm our business and operating results.
- Assertions by third parties of infringement or other violations by us of their intellectual property rights could result in significant costs and harm our business and operating results.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, it is possible to identify forward-looking statements because they contain words such as "anticipates," "believes," "contemplates," "continue," "could," "estimates," "expects," "future," "intends," "likely," "may," "plans," "potential," "predicts," "projects," "seek," "should," "target," or "will," or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- *our financial performance, including our revenues, costs, expenditures, growth rates, operating expenses and ability to generate positive cash flow to fund our operations and sustain profitability;*
- *anticipated technology trends, such as the use of cloud solutions;*
- *our ability to adapt to changing market conditions;*
- *the impact of the ongoing Coronavirus Disease 2019 (COVID-19) pandemic and related public health measures on our business;*
- *economic and financial conditions, including volatility in foreign exchange rates;*
- *our ability to diversify our sources of revenues, including selling additional solutions to our existing customers and our ability to pursue new customers;*
- *the effects of increased competition in our market;*
- *our ability to innovate, enhance our cloud solutions and platform and introduce new solutions;*
- *our ability to effectively manage our growth;*
- *our anticipated investments in sales and marketing, our infrastructure, new solutions, research and development, and acquisitions;*
- *maintaining and expanding our relationships with channel partners;*
- *our ability to maintain, protect and enhance our brand and intellectual property;*
- *costs associated with defending intellectual property infringement and other claims;*
- *our ability to attract and retain qualified employees and key personnel, including sales and marketing personnel;*
- *our ability to successfully enter new markets and manage our international expansion;*
- *our expectations, assumptions and conclusions related to our provision for income taxes, our deferred tax assets and our effective tax rate; and*
- *other factors discussed in this Annual Report on Form 10-K in the sections titled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business."*

We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The results, events and circumstances reflected in these forward-looking statements are subject to risks, uncertainties, assumptions, and other factors including those described in Part I, Item 1A (Risk Factors) of this Annual Report and those discussed in other documents we file with the U.S. Securities and Exchange

Commission (SEC). Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements used herein. We cannot provide assurance that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

You should not rely on forward-looking statements as predictions of future events. Except as required by law, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements, and we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Qualys, the Qualys logo and other trademarks and service marks of Qualys appearing in this Annual Report on Form 10-K are the property of Qualys. This Annual Report on Form 10-K also contains trademarks and trade names of other businesses that are the property of their respective holders. We have omitted the ® and ™ designations, as applicable, for the trademarks used in this Annual Report on Form 10-K.

PART I

Item 1. Business

Overview

We are a pioneer and leading provider of a cloud-based platform delivering information technology (IT), security and compliance solutions. Our integrated suite of IT, security and compliance solutions delivered on our Qualys Cloud Platform enables our customers to: 1) identify and manage their IT assets across on-premises, endpoints, cloud, containers, and mobile environments; 2) collect and analyze large amounts of IT security data; 3) discover and prioritize vulnerabilities; 4) recommend and implement remediation actions; and 5) verify the implementation of such actions. This helps organizations protect their systems and applications from ever-evolving cyber-attacks and helps achieve compliance with internal policies and external regulations.

Our cloud solutions address the growing IT, security and compliance complexities and risks that are amplified by the dissolving boundaries between internal and external IT infrastructures and web environments, the rapid adoption of cloud computing, containers and serverless IT models, and the proliferation of geographically dispersed IT assets. Organizations use our integrated suite of solutions to cost-effectively obtain a unified view of their IT asset inventory as well as security and compliance posture across globally-distributed IT infrastructures as our solution offers a single platform for information technology, information security, application security, endpoint, developer security and cloud teams.

IT infrastructures are more complex and globally-distributed today than ever before, as organizations of all sizes increasingly rely upon a myriad of interconnected information systems and related IT assets, such as servers, databases, web applications, routers, switches, desktops, laptops, other physical and virtual infrastructure, and numerous external networks and cloud services. In this environment, new and evolving digital technologies intended to improve organizations' operations can also increase vulnerability to cyber-attacks, which can expose sensitive data, damage IT and physical infrastructures, and result in serious financial or reputational consequences. In addition, the rapidly increasing amount of data and devices in IT environments makes it more difficult to identify and remediate vulnerabilities in a timely manner. The predominant approach to IT security has been to implement multiple disparate security products that can be costly and difficult to deploy, integrate and manage and may not adequately protect organizations. As a result, we believe there is a large and growing opportunity for comprehensive cloud-based IT, security and compliance solutions delivered in a single platform.

We designed our Qualys Cloud Platform to transform the way organizations secure and protect their IT infrastructures and applications. Our cloud platform offers an integrated suite of solutions that automates the lifecycle of asset discovery and management, security assessments, and compliance management for an organization's IT infrastructure and assets, whether such infrastructure and assets reside inside the organization, on their network perimeter, on endpoints or in the cloud. Since inception, our solutions have been designed to be delivered through the cloud and to be easily and rapidly deployed on a global scale, enabling faster implementation and lower total cost of ownership than traditional on-premises enterprise software products. Our customers, ranging from some of the largest global organizations to small businesses, are served from our globally-distributed cloud platform, enabling us to rapidly deliver new solutions, enhancements and security updates.

We believe that our cloud platform provides our customers with unique advantages, including:

- *No hardware to buy or manage.* There is no infrastructure or software to buy and maintain thus reducing our customers' operating costs; all services are accessible in the cloud via web interface. Qualys operates and maintains the platform.

- *Real-time visibility in one place, anytime and anywhere*. Our customers can conveniently see their security and compliance posture across their global IT asset inventory in one browser window, without plugins or a virtual private network (VPN), whenever and wherever Internet access is available.
- *Easy global scanning.* Our customers can easily perform scans on geographically distributed and segmented networks at the perimeter, behind the firewall, on dynamic cloud environments and on endpoints.
- *Seamless scaling.* Our cloud platform is a scalable, comprehensive, and end-to-end solution for the IT, security and compliance needs of our customers. Our customers can seamlessly add new coverage, users and services after they have deployed our platform.
- *Up to date resources*. Qualys has one of the largest knowledge bases of vulnerability signatures in the industry. All security updates are made in real-time.
- *Data stored securely*. Data is securely stored and processed in a multi-tiered architecture of load-balanced servers. Our encrypted databases are physically and logically secured.

We were founded and incorporated in December 1999 with a vision of transforming the way organizations secure and protect their IT infrastructure and applications and initially launched our first cloud solution, Vulnerability Management (VM), in 2000. As VM gained acceptance, we introduced additional solutions to help customers manage increasing IT, security and compliance requirements. Today, the suite of solutions that we offer on our cloud platform and refer to as the Qualys Cloud Apps helps our customers protect a range of assets across on-premises, endpoints, cloud, containers, and mobile environments. These Cloud Apps address and include:

- *IT Security:* Vulnerability Management (VM), Vulnerability Management, Detection and Response (VMDR), Threat Protection (TP), Continuous Monitoring (CM), Patch Management (PM), Multi-Vector Endpoint Detection and Response (EDR), Indication of Compromise (IOC), Certificate Assessment (CRA);
- *Compliance:* Policy Compliance (PC), Security Configuration Assessment (SCA), PCI Compliance (PCI), File Integrity Monitoring (FIM), Security Assessment Questionnaire (SAQ), Out of-Band Configuration Assessment (OCA);
- *Web Application Security:* Web Application Scanning (WAS), Web Application Firewall (WAF);
- *Asset Management:* Global IT Asset Inventory (AI), CMDB Sync (SYN), Certificate Inventory (CRI); and
- *Cloud/Container Security:* Cloud Inventory (CI), Cloud Security Assessment (CSA), Container Security (CS).

We provide our solutions through a software-as-a-service model, primarily with renewable annual subscriptions. These subscriptions require customers to pay a fee in order to access each of our cloud solutions. We generally invoice our customers for the entire subscription amount at the start of the subscription term, and the invoiced amounts are treated as deferred revenues and are recognized ratably over the term of each subscription. We continue to experience revenue growth from our existing customers as they renew and purchase additional subscriptions, as well as from the addition of new customers to our cloud platform.

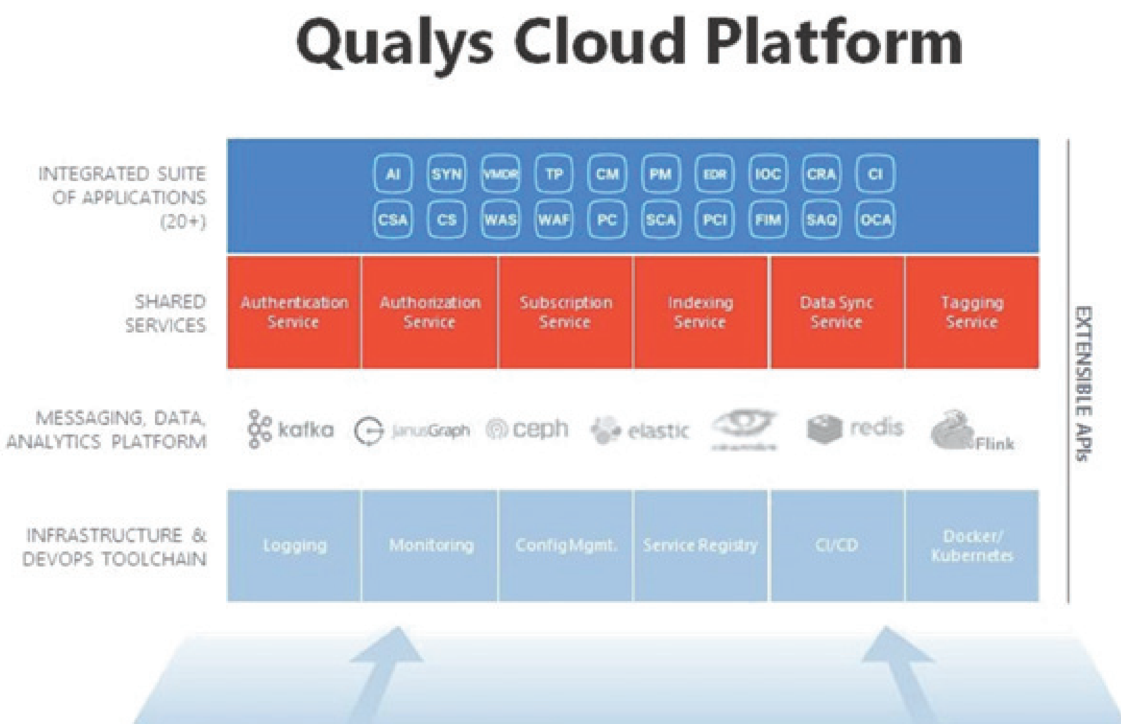
Our Qualys Cloud Platform is currently used by over 19,000 customers, including active subscribers of our free services, in more than 130 countries, including a majority of each of the Forbes Global 100 and Fortune 100. Our revenues increased to $363.0 million in 2020 from $321.6 million in 2019 and $278.9 million in 2018.

Our Platform

Our cloud platform consists of a suite of IT security, compliance, web application security, asset management and cloud and container security solutions, which we refer to as the Qualys Cloud Apps, that leverages our shared and extensible core services and our highly scalable multi-tenant cloud infrastructure. We also provide open application program interfaces, or APIs, and other developer tools that allow third parties to embed our technology into their solutions and build applications on our cloud platform.

Our cloud platform utilizes physical and virtual sensors, and cloud agents that provide our customers with continuous visibility enabling customers to respond to threats immediately. Customers can extend visibility to all known IT infrastructure using our Out-of-Band Configuration Assessment sensor for systems that are air-gapped or otherwise difficult to assess.

The Qualys Cloud Platform automatically gathers and analyzes security and compliance data in a scalable, state-of-the-art backend. The technology underlying our cloud infrastructure enables us to ingest, process, analyze and store a high volume of sensor data coming from our agents, scanners and passive analyzers, and correlate information at very high speeds in a distributed manner for millions of devices.



Our cloud platform is delivered to our customers via our shared platform offering from our global data centers, or via our private platform offering, Qualys Private Cloud Platform (PCP), for customers or partners that want the platform to reside within the customer's data center. The PCP is a standalone version of our multi-layer, multi-tenant services architecture and is a fully integrated turnkey solution, making it more scalable, cost effective and faster to deploy within a customer's data center. Solutions delivered through our PCP are typically on the same subscription basis as solutions delivered through our shared platform. Our PCP utilizes hardware and software owned by us and is physically located on the customer's premises. The customer is not permitted to take possession of the software or access the software code. We also offer our PCP as a subscription-based platform services to the customer using a virtual version of our software. This virtualized PCP allows us to extend our security and compliance solutions without the complexity and cost associated with deploying traditional enterprise software. We also offer Private Cloud Platform Appliance (PCPA), an on-premises IT, security and compliance solution packaged in a form-factor for medium-sized companies.

Qualys Core Services

Our core services enable integrated workflows, management and real-time analysis and reporting across all of our IT, security and compliance solutions for our customers inside their organizations, on the perimeter, on endpoints or in the cloud.

Our core services constitute dynamic and customizable dashboards and centrally managed, self-updating integrated Cloud Apps, through what we call a "single-pane-of-glass" user interface. Our interactive, dynamic dashboards and cloud platform allow our customers to aggregate and correlate all of their IT, security and compliance data in one place, drill down into details, and generate reports customized for different audiences. Our cloud platform's powerful Elasticsearch clusters enable customers to instantly find detailed data on any asset.

Our core services include:

- *Asset Tagging and Management.* Enables customers to easily identify, categorize and manage large numbers of assets in highly dynamic IT environments and automates the process of inventory management and hierarchical organization of IT assets. Built on top of this core service is the Qualys AI framework, which is a global asset inventory service enabling our customers to search for information on any IT asset, scaling to millions of assets for customers of all sizes, helping IT and security personnel to search IT assets and maintain an up-to-date inventory on a continuous basis.
- *Reporting and Dashboards.* A highly configurable reporting engine that provides customers with reports and dashboards based on their roles and access privileges.
- *Questionnaires and Collaboration.* A configurable workflow engine that enables customers to easily build questionnaires and capture existing business processes and workflows to evaluate controls and gather evidence to validate and document compliance.
- *Remediation and Workflow.* An integrated workflow engine that allows customers to automatically generate helpdesk tickets for remediation and to manage compliance exceptions based on customer-defined policies, enabling subsequent review, commentary, tracking and escalation. This engine automatically distributes remediation tasks to IT administrators upon scan completion, tracks remediation progress and closes open tickets once patches are applied and remediation is verified in subsequent scans.
- *Big Data Correlation and Analytics Engine.* Provides Elasticsearch capabilities for indexing, searching and correlating large amounts of security and compliance data with other security incidents and third-party security intelligence data. Embedded workflows enable customers to quickly assess risk and access information for remediation, incident analysis and forensic investigations.
- *Alerts and Notifications.* Creates email notifications to alert customers of new vulnerabilities, malware infections, scan completion, open trouble tickets and system updates.

Qualys Cloud Apps

Many organizations have an array of heterogeneous point tools that do not interoperate well and are difficult and costly to maintain and integrate, making it difficult for Chief Information Officers (CIOs) and Chief Information Security Officers (CISOs) to obtain a single, unified view of their organization's security and compliance posture. The Qualys Cloud Platform and its Cloud Apps help organizations escape this tool-fragmentation dilemma by drastically simplifying their security stacks and regaining unimpeded visibility across their IT environment.

The Cloud Apps are self-updating, centrally managed and tightly integrated, and cover a broad range of functionality in areas such as IT, security, compliance, web application security, asset management and cloud and container security solutions.

From inception through December 31, 2019, we have added the following Cloud Apps: VM, PC, PCI, WAS, WAF, CM, SYN, SAQ, TP, FIM, IOC, AI, SCA, CS, CI, CSA, CRI, CRA, OCA, PM, and a free version of AI. In 2020, we introduced VMDR and EDR.

We believe that our applications are easy to use and provide our customers with a high level of control because our applications are part of one platform, share a common user interface, utilize the same scanners and agents, access the same collected data, and leverage the same user permissions.

Our customers can subscribe to one or more of our IT, security and compliance Apps based on their initial needs and expand their subscriptions over time to new areas within their organization or to additional Qualys solutions. We offer four editions of our Qualys Cloud Apps: Enterprise for large enterprises, Express for medium-sized businesses, Express Lite for small-sized businesses, and Consulting Edition for consultants, consulting organizations and Managed Service Providers (MSPs).

Many of our customers use multiple Cloud Apps to develop a more complete understanding of their respective environment's IT, security and compliance posture. The Qualys Cloud Platform currently provides the following Cloud Apps to our customers:

IT Security

Vulnerability Management (VM): VM is an industry leading and award-winning solution that automates network auditing and vulnerability management across an organization, including network discovery and mapping, asset management, vulnerability reporting and remediation tracking. Driven by our comprehensive knowledge base of known vulnerabilities, VM enables cost-effective protection against vulnerabilities without substantial resource deployment.

Vulnerability Management, Detection and Response (VMDR): VMDR enables organizations to automatically discover every asset in their environment, including unmanaged assets appearing on the network, inventory all hardware and software, and classify and tag critical assets. VMDR continuously assesses these assets for the latest vulnerabilities and applies the latest threat intel analysis to prioritize actively exploitable vulnerabilities. Finally, VMDR automatically detects the latest superseding patch for the vulnerable asset and easily deploys it for remediation. By delivering all this in a single app workflow, VMDR automates the entire process and significantly accelerates an organization's ability to respond to threats, thus preventing possible exploitation.

Threat Protection (TP): Thousands of new vulnerabilities are disclosed annually. With TP, customers can pinpoint their most critical threats and identify what they need to remediate first. TP continuously correlates external threat information against a customer's vulnerabilities and IT asset inventory, so customers know which threats pose the greatest risk to their organization at any given time. As Qualys engineers continuously validate and rate new threats from internal and external sources, TP's live feed displays the latest vulnerability disclosures and maps them to customers' impacted IT assets. Customers can see the assets affected by each threat, and drill down into details.

Continuous Monitoring (CM): Built on top of VM, CM is a next-generation cloud service that can detect network threats and unexpected changes before they turn into breaches. Whenever CM spots an anomaly in a network, it immediately sends targeted, informative alerts to the right people for each situation and each machine. CM tracks what happens throughout public perimeters, internal networks, and cloud environments—anywhere in the world.

Patch Management (PM): PM provides automated patch deployment capabilities by correlating vulnerabilities and patches. It continuously gathers and uploads telemetry about installed software, open vulnerabilities and missing patches to the Qualys Cloud Platform. The resulting shared visibility of assets and their posture enables IT and security teams to collaborate using common vulnerability-centric terminology and provides a consistent data set to analyze, prioritize, deploy and verify patches more efficiently.

Multi-Vector Endpoint Detection and Response (EDR): Traditional endpoint detection and response solutions focus only on endpoint activity to detect attacks. As a result, they lack the full context to analyze attacks accurately. This leads to an incomplete picture and a high rate of false positives and negatives, requiring organizations to use multiple point solutions and large incident response teams. Qualys fills the gaps by bringing a new multi-vector approach and the unifying power of its highly scalable Cloud Platform to EDR, providing vital context and comprehensive visibility to the entire attack chain, from prevention to detection to response. EDR unifies different context vectors like asset discovery, rich normalized software inventory, end-of-life visibility, vulnerabilities and exploits, misconfigurations, in-depth endpoint telemetry, and network reachability with a powerful backend to correlate it all for accurate assessment, detection and response.

Indication of Compromise (IOC): IOC delivers threat hunting, detects suspicious activity, and confirms the presence of known and unknown malware for devices both on and off the network. From its single console, customers can monitor current and historical system activity for all on-premises servers, user endpoints, and cloud instances—even for assets that are currently offline or have been re-imaged by IT. IOC utilizes the Cloud Agent to capture endpoint activity on files, processes, mutant handles, registries, and network connections, and uploads the data to the Qualys Cloud Platform for storage, processing, and query. IOC 2.0, which was released in 2019, now provides enhanced attack detection, investigation, and response capabilities for security analysts, incident responders, and managed security service providers.

Certificate Assessment (CRA): CRA assesses digital certificates and Transport Layer Security (TLS) configurations. CRA generates certificate instance grades using a straightforward methodology that allows administrators to assess often overlooked server SSL/TLS configurations without having to become SSL experts. It also identifies out-of-policy certificates with weak signatures or key length and shows how many unique Certificate Authorities were found in the environment and how many certificates each one issued.

Compliance

Policy Compliance (PC): PC performs automated security configuration assessments on IT systems throughout a network, helping to reduce risk and continuously ensure compliance with internal policies and external regulations. PC leverages out-of-the-box library content to fast-track compliance assessments using industry-recommended best practices. PC also provides a centralized, interactive console for specifying baseline standards for different hosts. By automating requirement evaluation against multiple standards for operating systems, network devices, databases and server applications, PC enables the quick identification of security issues and works to prevent configuration drift. PC works to prioritize and track remediation and exceptions, while demonstrating a repeatable auditable process for compliance management.

Security Configuration Assessment (SCA): SCA provides automatic assessment of IT assets' configurations using the latest Center for Internet Security (CIS) Benchmarks for operating systems, databases, applications and network devices. SCA provides intuitive workflows for assessing, monitoring, reporting and remediating security-related configuration issues. SCA's CIS assessments are provided via a web-based user interface and delivered from the Qualys

Cloud Platform, enabling centralized management with minimal deployment overhead. SCA users can automatically create downloadable reports and view dashboards.

PCI Compliance (PCI): PCI streamlines and automates compliance with PCI DSS (Payment Card Industry Data Security Standard) requirements for protecting the collection, storage, processing and transmission of cardholder data. As an Approved Scanning Vendor, Qualys has been authorized by the PCI Security Standards Council to conduct the required quarterly scans. PCI scans all Internet-facing networks and systems with Six Sigma (99.9996%) accuracy, generates reports and provides detailed patching instructions. An auto-submission feature completes the compliance process once remediation is completed.

File Integrity Monitoring (FIM): FIM logs and centrally tracks file change events on common enterprise operating systems in organizations of all sizes. FIM provides customers with a simple way to achieve centralized cloud-based visibility of activity resulting from normal patching and administrative tasks, change control exceptions or violations, or malicious activity—then reports on that system activity as part of compliance mandates. FIM collects the critical details needed to quickly identify changes and root out activity that violates policy or is potentially malicious. FIM helps customers to comply with change control policy enforcement and change monitoring requirements.

Security Assessment Questionnaire (SAQ): SAQ automates and streamlines third-party and internal risk assessment processes, obviating the need to perform such processes manually via email and spreadsheets. SAQ easily designs surveys to assess procedural controls of IT and security policies and practices. SAQ automates the launch and monitoring of assessment campaigns, making the process agile, accurate, comprehensive, centralized, scalable and uniform across an organization. SAQ also provides tools for displaying, analyzing and acting on collected data, enabling the assessment of compliance with industry standards, regulations and internal policies of third parties, like vendors and partners, and of employees.

Out-of-Band Configuration Assessment (OCA): The OCA sensor and Cloud App allows customers to achieve complete visibility of all known IT infrastructure by pushing vulnerability and configuration data to the Qualys Cloud Platform from systems that are otherwise difficult to assess, such as highly locked-down systems, systems on disconnected or “air gap” networks, or in environments that are highly sensitive to scans. OCA’s expanded data collection approach significantly broadens the types of technologies supported by the Qualys Cloud Platform and provides deeper assessment of configuration so that customers have better visibility into potentially critical vulnerabilities and misconfigurations across their entire environment.

Web Application Security

Web Application Scanning (WAS): WAS continuously discovers and catalogs web applications – including new and unknown ones – and detects vulnerabilities and misconfigurations in web apps and APIs. Scaling to thousands of scans, it conducts incisive, thorough and precise testing of browser-based web apps, mobile app backends, and Internet of things (IoT) services. Its seamless integration with the Qualys Web Application Firewall (WAF) enables verification of attack protection and one click mitigation of vulnerabilities. WAS’ powerful API enables integration with other systems and allows teams to detect issues within DevOps environments early in the application development process. Bundled malware detection capability with WAS uses reputational, behavioral, antivirus, and heuristic analyses to identify and alert on malware infecting a user’s websites. By Integrating WAS with manual testing tools and bug bounty solutions, customers can build a comprehensive web application vulnerability testing program.

Web Application Firewall (WAF): WAF permits the reduction of application security cost and complexity with a unified platform to prevent any attempt to exploit vulnerabilities. Simple, scalable and adaptive, WAF enables the quick blocking of attacks, prevents disclosure of sensitive information, and controls when and where customer applications are accessed. WAF and WAS work together seamlessly. Customers scan web apps with WAS, deploy one-click virtual patches if needed in WAF, and manage it all from a centralized cloud-based portal. WAF can be deployed in minutes on prem or in the cloud, as a virtual machine or a container, supports load-balancing as well as TLS offloading, and does not require special hardware.

Asset Management

Global IT Asset Inventory (AI): AI constantly gathers information on all assets, including system and hardware details, running services, open ports, installed software and user accounts. Asset discovery and inventory collection is done through a combination of Qualys network scanners, Cloud Agents and passive scanners, which together collect comprehensive data from on-premises or cloud infrastructure as well as remote endpoints. In order to create consistent and uniform asset data, AI normalizes raw discovery data to standardize every manufacturer name, product name, model and software version using Qualys' ever-evolving technology catalog as a reference. This catalog automatically extends IT asset inventory with non-discoverable metadata such as hardware and software release dates, end of life dates, and license categories. This new data layer allows teams to detect issues such as unauthorized software, outdated hardware or end-of-life software, which can help properly tag, support, and secure business-critical assets. Additionally, customers can sync their asset information with ServiceNow CMDB.

CMDB Sync (SYN): SYN is a certified application that synchronizes Qualys AI data with ServiceNow's Configuration Management system. Device changes are immediately transmitted to the Qualys Cloud Platform and then synchronized with ServiceNow. For customers, this means an end to unidentified and misclassified assets, and to data update delays, all of which increase chances of breaches. SYN provides real-time, comprehensive visibility of IT asset inventories enabling immediate detection of security and compliance risks.

Certificate Inventory (CRI): CRI continuously scans global IT assets from a single console to discover internal and external certificates issued from any certificate authority across all enterprise IT assets, both on premise and in the cloud. As a result, certificates can be renewed before they expire, which stops certificate-related outages and improves availability. It collects all certificate, vulnerability and configuration data required for certificate inventory and analysis. CRI also reveals how many certificates are out of compliance or do not follow organizational policies for key length, for signature algorithms or for the use of trusted and approved Certificate Authorities through the use of highly customizable dashboards and provides users a comprehensive overview of Qualys SSL Labs-caliber certificate grades for internal and externally facing certificates.

Cloud / Container Security

Cloud Inventory (CI): CI delivers continuous visibility into public cloud accounts. In one single-pane view, it inventories virtual machines, storage buckets, databases, security groups, Access Control Lists (ACLs), Elastic Load Balancers (ELBs) and users – across all regions, multiple accounts and multiple cloud platforms. CI continuously tracks assets and enables users to quickly understand the topography of their cloud environment and uncover the root cause of incidents.

Cloud Security Assessment (CSA): CSA provides a continuous assessment of the security posture of an organization's cloud resources against misconfigurations, malicious behavior, and nonstandard deployments. CSA evaluates resources against CIS benchmarks and best practices to identify misconfigured storage buckets, security groups, Relational Database Service, exposing data and the resource for public exploitation. CSA correlates host vulnerabilities and compliance data into intelligent insights which allow users to quickly detect risks throughout their complex cloud environments. With CSA, users gain real-time visibility into their up-to-date security and compliance posture of public clouds in one single-pane view.

Container Security (CS): CS delivers container-native visibility and protection throughout the entire lifecycle of containerized applications. It incorporates scanning of container images for software composition and enforcement of hardened container stack configurations for continuous policy compliance, whether the images are on the build machines, in the container registries or in the runtime cluster nodes. CS uses a unique ‘layered-in’ approach to provide deep visibility into all the application activities and automatically creates a behavior profile, which is enforced on each container for runtime protection. By integrating with continuous integration and continuous delivery pipelines and toolchains, CS enables DevSecOps processes and transparent enforcement of security and compliance without compromising the speed and agility of containers and serverless deployment models. This leads to significant cost benefits for enterprises compared to certain legacy security solutions.

Free Services

We also offer organizations of all sizes free security and compliance services based on the Qualys Cloud Platform:

- Qualys Global IT Asset Discovery and Inventory app automatically creates a continuous, real-time inventory of known and unknown assets throughout a user’s global IT footprint across on-premises, endpoints, multi-cloud, mobile, containers, operational technology and IoT. The app also automatically normalizes and categorizes assets to ensure clean, reliable, and consistent data. In-depth asset details provide fine-grained visibility on the system, services, installed software, network, and users. It also detects any device that connects to a user’s networks, via passive scanning technology. Upon an unknown device detection, users can install a light-weight Qualys self-updating agent (3MB) to turn the device into a managed device or launch a vulnerability scan.
- Qualys Community Edition automatically gathers and analyzes security and compliance data from hybrid IT environments to provide a complete, continuously updated, and instant view of monitored IT assets on-premises or in the cloud, as well as web apps, from a single-pane-of-glass interface. The Community Edition is limited to one user with data retention for three months.
- Qualys CloudView continuously discovers and tracks assets and resources across public cloud deployments to provide users both real-time and historical views of cloud inventory. It collects metadata about cloud assets and resources to help users understand the relationships between public cloud assets and resources across different dimensions and then discover their threat posture based on those attributes and relationships. CloudView is limited to three accounts per public cloud platform.
- Qualys CertView inventories and assesses all Internet-facing certificates to generate SSL/TLS configuration grades, identifies the certificate issuer and tracks certificate expirations to help stop expired and expiring certificates from interrupting critical business functions.

Our Growth Strategy

We intend to strengthen our leadership position as a trusted provider of cloud-based IT, security and compliance solutions. The key elements of our growth strategy are:

- ***Continue to innovate and enhance our cloud platform and suite of solutions.*** We intend to continue to make significant investments in research and development to extend our cloud platform's functionality by developing new security solutions and capabilities and further enhancing our existing suite of solutions. From inception through December 31, 2019, we have added the following Cloud Apps: VM, PC, PCI, WAS, WAF, CM, SYN, SAQ, TP, FIM, IOC, AI, SCA, CS, CI, CSA, CRI, PM, and a free version of AI. In 2020, we introduced VMDR and EDR.
- ***Expand the use of our suite of solutions by our large and diverse customer base.*** With more than 19,000 customers, including active subscribers of our free services, across many industries and geographies, we believe we have a significant opportunity to sell additional solutions to our customers and expand their use of our suite of solutions. Because our customers typically initially deploy one or two of our solutions in select parts of their IT infrastructures, our existing customers serve as a strong source of new sales as they expand their scope and increase their subscriptions or choose to adopt additional solutions from our integrated suite of IT, security and compliance offerings. In this regard, we continue to expand our sales execution and marketing functions to increase adoption of our newly developed solutions among our existing customers.
- ***Drive new customer growth and broaden our global reach.*** We are pursuing new customers by targeting key accounts, releasing free IT, security and compliance services and expanding both our sales and marketing organization and network of channel partners. We will continue to seek to make significant investments to encourage organizations to replace their existing security products with our cloud solutions. We intend to expand our relationships with key security consulting organizations, managed security service providers and value-added resellers to accelerate the adoption of our cloud platform. We seek to strengthen existing relationships as well as establish new relationships to increase the distribution and market awareness of our cloud platform and target new geographic regions. We also plan to partner with such security providers that can host our private cloud offering within their data centers, helping us expand our reach in new markets and new geographies.
- ***Selectively pursue technology acquisitions to bolster our capabilities and leadership position.*** We may explore acquisitions that are complementary to and can expand the functionality of our cloud platform. We may also seek to acquire development teams to supplement our own personnel and acquire technology to increase the breadth of our cloud-based IT, security and compliance solutions. In 2020, we acquired certain intangible assets of Spell Security Private Limited (Spell Security), expanding Qualys' endpoint behavior detection, threat hunting, malware research and multi-layered response capabilities for our EDR application. In 2019, we acquired the software assets of Adya Inc. (Adya), enabling Qualys to provide companies of all sizes with the ability to consolidate administration of their Software as a Service (SaaS) applications into one console, manage license costs across SaaS applications, set and enforce security policies in one place and report and audit on all activity with a single tool. In 2018, we acquired the software assets of 1Mobility Private Limited (1Mobility), a Singapore based company, allowing Qualys to provide enterprises of all sizes with the ability to create and continuously update an inventory of mobile devices on all versions of Android, iOS and Windows Mobile in their environment; and to continuously assess their security and compliance posture, while quarantining devices that are compromised or out-of-compliance. In 2018, we also acquired Layered Insight (Layered Insight), a provider of container native application protection, delivering insight into container images, adaptive analysis of running containers, and automated enforcement of the container environments.

Our Customers

We market and sell our solutions to enterprises, government entities and small and medium-sized businesses across a broad range of industries, including education, financial services, government, healthcare, insurance, manufacturing, media, retail, technology and utilities. As of December 31, 2020, we had over 19,000 customers, including active subscribers of our free services, in more than 130 countries, including a majority of each of the Forbes Global 100 and Fortune 100. In each of 2020, 2019 and 2018, no one customer accounted for more than 10% of our revenues. In 2020, 2019 and 2018, 63%, 64% and 67%, respectively, of our revenues were derived from customers in the United States based on our customers billing address. We sell our solutions to enterprises and government entities primarily through our field sales force and to small and medium-sized businesses through our inside sales force. We generate a significant portion of sales through our channel partners, including managed security service providers, value-added resellers and consulting firms in the United States and internationally.

Sales and Marketing

Sales

We market and sell our IT, security and compliance solutions to customers directly through our sales teams as well as indirectly through our network of channel partners.

Our global sales force is organized into a field sales team, which focuses on enterprises, generally including organizations with more than 5,000 employees, and an inside sales team, which focuses on small to medium-sized businesses, which generally include organizations with less than 5,000 employees. Both our field and inside sales teams are divided into three geographic regions, the Americas; Europe, Middle East and Africa; and Asia-Pacific. We also further assign each of our sales teams into groups that focus on adding new customers or managing relationships with existing customers.

Our channel partners maintain relationships with their customers throughout the territories in which they operate and provide their customers with services and third-party solutions to help meet those customers' evolving security and compliance requirements. As such, these partners offer our IT, security and compliance solutions in conjunction with one or more of their own products or services and act as a conduit through which we can connect with these prospective customers to offer our solutions. Our channel partners include security consulting organizations, managed service providers and resellers, such as Accenture, BT Managed Security, Cognizant Technology Solutions, Deutsche Telekom, DXC Technology, Fujitsu, Hindustan Computers Limited (HCL) Technologies, International Business Machines (IBM), Infosys, Nippon Telegraph and Telephone Corporation (NTT), Optiv, SecureWorks, Tata Communications, Verizon and Wipro. Qualys has also established strategic partnerships with leading cloud providers like Amazon Web Services, Microsoft Azure and the Google Cloud Platform.

For sales involving a channel partner, the channel partner engages with the prospective customer directly and involves our sales team as needed to assist in developing and closing an order. When a channel partner secures a sale, we sell the associated subscription to the channel partner who in turn resells the subscription to the customer, with the channel partner earning a fee based on the total value of the order. Once the order is completed, we provide these customers with direct access to our solutions and other associated back-office applications, enabling us to establish a direct relationship as part of ensuring customer satisfaction with our solutions. At the end of the subscription term, the channel partner engages with the customer to execute a renewal order, with our sales team providing assistance as required. In 2020, 2019 and 2018, 42%, 42% and 41%, respectively, of our revenues were generated by channel partners.

Marketing

Our marketing programs include a variety of online marketing, advertising, conferences, events, public relations activities and web-based seminar campaigns targeted at key decision makers within our prospective customers.

We have a number of marketing initiatives to build awareness and encourage customer adoption of our solutions. We offer free trials and services to allow prospective customers to experience the quality of our solutions, to learn in detail about the features and functionality of our cloud platform, and to quantify the potential benefits of our solutions.

Customer Support

Qualys Support delivers 24x7x365 day customer technical support from global centers located in Foster City, California; Raleigh, North Carolina; and Pune, India. We recruit senior level technical personnel and trained subject matter experts who work closely with engineering and operations personnel to resolve issues quickly. Our IT, security and compliance solutions can be deployed easily and are designed to be implemented and operated without the need for significant professional services. We also offer various training programs as part of our subscriptions to all of our customers. In addition, we leverage the insights drawn from our customers to further improve the functionality of our IT, security and compliance solutions. Our mission is to ensure customer satisfaction and play a critical role in retaining and expanding our customer base.

Research and Development and Operations

We devote significant resources to maintain, enhance and add new functionality to our Qualys Cloud Platform and the integrated suite of solutions that we offer. Our development organization consists of agile engineering teams with substantial security expertise in specific areas of our solutions. In addition to our development teams, we also built a sophisticated research team focused on identifying threats and developing signatures for vulnerabilities and compliance checks so that we can provide our customers with daily updates and enable them to scan their assets for the latest threats. We conduct our research and development in the United States, France and India, which gives us access to some of the best research and engineering talent in the world. Our focus remains to attract engineering talent as we continue to add new solutions and improve existing ones.

Our development team works closely with our customers and partners to gain valuable insights into their environments and gather feedback for threat research, product development and innovations. We typically release updates to our solutions, including enhancements and new features multiple times a year, and we measure the quality of our scan results on a frequent basis in an effort to maintain the highest level of scan accuracy.

The modular architecture of our cloud platform enables our engineering teams to simultaneously work on different features, accelerating the delivery of new functionalities to customers. Our research and development team also works collaboratively with our technical support team to ensure customer satisfaction and with our sales team to accelerate the adoption of our solutions.

Manufacturing Agreement

Our physical appliances are provided by SYNNEX Corporation (SYNNEX), pursuant to a manufacturing services agreement dated March 1, 2011. Under this agreement, SYNNEX manufactures, assembles and tests our physical scanner appliances. This agreement is automatically renewed annually, unless terminated (i) at any time upon the mutual written agreement of us and SYNNEX, (ii) by either party upon 90 days or more written notice, (iii) upon written notice, subject to applicable cure periods, if the other party has materially breached its obligations under the agreement or (iv) by either party upon the other party seeking an order for relief under the bankruptcy laws of the United States or similar laws of any other jurisdiction, a composition with or assignment for the benefit of creditors, or dissolution or liquidation.

Data Center Agreements

Our data center operations are provided by large third-party data center vendors and are located in the United States, Canada, Switzerland, the Netherlands, United Arab Emirates and India. Our data center agreements have varying terms through 2025.

Competition

The expanding capabilities of our IT, security and compliance solutions have enabled us to address a growing array of opportunities in the cloud IT, security and compliance market. We compete with a large and broad array of established and emerging vulnerability management vendors, compliance vendors and data security vendors in a highly fragmented and competitive environment.

We compete with large and small public companies, such as Belden (Tripwire), Broadcom (Symantec Enterprise Security), CrowdStrike, F5 Networks, FireEye, International Business Machines, McAfee, Micro Focus International, Palo Alto Networks, Rapid7, Tenable Holdings and VMware, as well as privately held security providers including Barracuda Networks, BeyondTrust Software, Flexera, Forescout Technologies, Imperva, Tanium, Trustwave Holdings, Venafi, and Veracode. We also seek to replace IT, security and compliance solutions that organizations have developed internally. As we continue to extend our cloud platform's functionality by further developing IT, security and compliance solutions, such as web application scanning and firewalls, we expect to face additional competition in these new markets. Our competitors may also attempt to further expand their presence in the IT, security and compliance market and compete more directly against one or more of our solutions.

We believe that the principal competitive factors affecting our markets include product functionality, breadth of product offerings, flexibility of delivery models, ease of deployment and use, total cost of ownership, scalability and performance, customer support and extensibility of platform. We believe that our suite of solutions generally competes favorably with respect to these factors. However, many of our primary competitors have greater name recognition, longer operating histories, more established customer relationships, larger marketing budgets and significantly greater resources than we do.

Intellectual Property

We rely on a combination of trade secrets, copyrights, patents and trademarks, as well as contractual protections, to establish and protect our intellectual property rights and protect our proprietary technology. As of December 31, 2020, we have twenty issued patents, several pending U.S. patent applications and an exclusive license to four U.S. patents, which was obtained in connection with our acquisition of Nemean in 2010. The inbound license remains in effect until the licensed patents are no longer enforceable, unless the applicable license agreement is first terminated by us or terminated by the licensor for a breach of the agreement or if we undergo certain bankruptcy events. The licenses are currently exclusive and will remain exclusive so long as we make an appropriately-timed written election and pay an annual fixed royalty for ten years thereafter. These exclusive licenses are subject to the licensor's reservation of certain rights in the patents and subject to the U.S. government's reserved rights in the technology. We have a number of registered and unregistered trademarks. We require our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and control access to software, documentation and other proprietary information. We view our trade secrets and know-how as a significant component of our intellectual property assets, as we have spent years designing and developing the Qualys Cloud Platform, which we believe differentiates us from our competitors.

We expect that software and other solutions in our industry may be subject to third-party infringement claims as the number of competitors grows and the functionality of products in different industry segments overlaps. Any of these third parties might make a claim of infringement against us at any time.

Human Capital Resources

We take a holistic approach to our human capital management strategy, striving to create a culture where talented people want to come to work, develop their careers, become leaders, and make a difference for all our stakeholders and communities. Doing the right thing for our people, our communities and our environment upholds the trust of our customers, partners, employees, and stockholders, enabling us to grow our business profitably and meet the diverse needs of our constituents.

As of December 31, 2020, we had 1,498 full-time employees, including 749 in research and development, 298 in sales and marketing, 310 in operations and customer support, and 141 in general and administrative. As of December 31, 2020, approximately 73% of our employees were located outside the United States, with 63% of our employees located in Pune, India. None of our U.S. employees are covered by collective bargaining agreements. Employees in certain European countries and Brazil have collective bargaining arrangements at the national level. We believe our employee relations are good, and we have not experienced any work stoppages.

Diversity and Inclusion

We are proud to be a leader in the promotion and practice of diversity and inclusion. In addition to having offices and employees all over the world, we take pride in our cultural diversity. Qualys searches the globe for top talent in an effort to recruit and hire diverse individuals with a variety of skills, experiences, and backgrounds. Our objective is to continue to improve our hiring, development, advancement, and retention of diverse talent and to foster an inclusive environment.

Our board of directors and executive team are highly diverse. Three out of our current eight member board of directors are women, and the board seeks to identify strong candidates who provide a wide range of perspectives, competencies, and knowledge to complement the board's skills, diversity and experiences. Further, our executive team is gender and ethnically diverse, with more than 50% of the executive team from underrepresented communities.

Health and Safety

We recognize that a healthy environment and safe workplaces are critical to our business, strategy, and communities. We address environmental issues in an integrated manner to encompass protection of the environment as well as the health and safety of our workforce. For example, in response to COVID-19 and the significant increases in remote workforces in March 2020, we mandated a work from home policy to protect our employees and our communities. We also released a free cloud-based remote endpoint protection solution for 60 days that allowed IT and security teams to protect the computers of remote employees and support the health and safety of our communities.

With the ongoing COVID-19 pandemic, our workforce continues to operate remotely, and our top priority remains providing support for our employees, partners, and customers. We are fortunate that the nature of our business allows us to successfully operate in this dynamic work-from-home environment. We have been able to successfully adapt to the current challenges and deliver results despite the pandemic while continuing to protect the health and safety of our workforce and customers.

We require our employees and managers to participate in myriad training programs directed at maintaining a harassment-free, diverse, and secure workplace. With our diverse employee population, we uphold the rights to work in an environment that promotes equal opportunity and prohibits discriminatory practices against race, color, national origin, ancestry, medical condition, religious creed (including religious dress and grooming practices), marital status, registered domestic partner status, sex, sexual orientation, gender identity and expression, genetic characteristics and information, age, veteran status, or any other protected characteristic. Creating a respectful workplace and preventing harassment to our employees remain our on-going commitment.

Compensation and Benefits

We provide robust compensation and benefits to our employees. In addition to competitive base salaries, all qualified employees are eligible for variable pay and equity awards.

To support the health and wellness of our workforce, Qualys offers premium health coverage with minimal out-of-pocket contributions for our global employees.

Training and Development

We have experience with managing and developing a rapidly growing employee base. We believe every employee makes a difference, so we empower them in their roles and support them for maximum professional growth. We assist employees in achieving their career goals by helping them improve their skillsets and transition to other challenging roles. To support career growth inside and outside the Company, Qualys offers free self-paced or instructor-led certified training on core Qualys topics giving employees and non-employees an opportunity to achieve certifications.

Available Information

Our principal executive offices are located at 919 E. Hillsdale Blvd., 4th Floor, Foster City, California 94404. The telephone number of our principal executive offices is (650) 801-6100, and our main corporate website is *www.qualys.com*. Information contained on, or that can be accessed through, our website, does not constitute part of this Annual Report on Form 10-K and inclusion of our website address in this Annual Report on Form 10-K is an inactive textual reference only.

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, free of charge on our website, *www.qualys.com* as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Additionally, copies of materials filed by us with the SEC may be accessed at the SEC’s website, *www.sec.gov*.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, and all other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes, before making a decision to invest in our common stock. Our business, operating results, financial condition, or prospects could be materially and adversely affected by any of these risks and uncertainties. In that case, the trading price of our common stock could decline, and you might lose all or part of your investment. In addition, the risks and uncertainties discussed below are not the only ones we face. Our business, operating results, financial performance or prospects could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material.

Risks Related to Our Business and Industry

The continued spread of COVID-19, or any similar widespread infectious disease outbreak, could harm our business, financial condition and results of operations.

In December 2019, an outbreak of COVID-19 originated in Wuhan, China and has since spread to countries around the world. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The spread of COVID-19 has resulted in authorities imposing, and businesses and individuals implementing, numerous unprecedented measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place/stay-at-home and social distancing orders, and shutdowns. These measures have impacted and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners. The pandemic has significantly increased economic and demand uncertainty. It is likely that the current outbreak and continued spread of COVID-19 will cause an economic slowdown, and it is possible that it could cause a global recession, which could decrease demand for our solutions and negatively impact our operating results. There is a significant degree of uncertainty and lack of visibility as to the extent and duration of any such slowdown or recession.

The ultimate extent of the impact of COVID-19 on our business, financial position, results of operations and cash flows will depend on future developments, which are highly uncertain and cannot be predicted at this time. These impacts, individually or in the aggregate, could have a material and adverse effect on our business, financial position, results of operations and cash flows. Such effect may be exacerbated in the event the pandemic and the measures taken in response to it persist for an extended period of time. Under any of these circumstances, the resumption of normal business operations may be delayed or hampered by lingering effects of COVID-19 on our operations, partners, and customers.

Our quarterly operating results may vary from period to period, which could result in our failure to meet expectations with respect to operating results and cause the trading price of our stock to decline.

Our operating results have historically varied from period to period, and we expect that they will continue to do so as a result of a number of factors, many of which are outside of our control, including:

- the level of demand for our solutions;
- publicity regarding security breaches generally and the level of perceived threats to IT security;
- expenses associated with our existing and new products and services;
- changes in customer renewals of our solutions;
- the extent to which customers subscribe for additional solutions;

- seasonal buying patterns of our customers;
- actual or perceived security breaches, technical difficulties or interruptions with our service;
- changes in the growth rate of the IT, security and compliance market;
- the timing and success of new product or service introductions by us or our competitors or any other changes in the competitive landscape of our industry, including consolidation among our competitors;
- the introduction or adoption of new technologies that compete with our solutions;
- decisions by potential customers to purchase IT, security and compliance products or services from other vendors;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- the timing of sales commissions relative to the recognition of revenues;
- the announcement or adoption of new regulations and policy mandates or changes to existing regulations and policy mandates;
- failure of our products and services to operate as designed;
- price competition;
- the length of our sales cycle for our products and services;
- insolvency or credit difficulties confronting our customers, affecting their ability to purchase or pay for our solutions;
- timely invoicing or changes in billing terms of customers;
- timing of deals signed within the quarter;
- pace and cost of hiring employees;
- changes in foreign currency exchange rates;
- general economic conditions, both domestically and in the foreign markets in which we sell our solutions;
- future accounting pronouncements or changes in our accounting policies;
- our ability to integrate any products or services that we may acquire in the future into our product suite or migrate existing customers of any companies that we may acquire in the future to our products and services;
- our effective tax rate;
- the amount and timing of income tax benefits that we recognize resulting from excess tax benefits related to stock-based compensation;
- the timing of expenses related to the development or acquisition of technologies, services or businesses; and
- potential goodwill and intangible asset impairment charges associated with acquired businesses.

Further, the interpretation and application of international laws and regulations in many cases is uncertain, and our legal and regulatory obligations in foreign jurisdictions are subject to frequent and unexpected changes, including the potential for various regulatory or other governmental bodies to enact new or additional laws or regulations or to issue rulings that invalidate prior laws or regulations.

For example, a Data Protection Act that substantially implements the European Union's General Data Protection Regulation (GDPR) was implemented in the United Kingdom in May 2018, and "Brexit" could also lead to further legislative and regulatory changes. It is unclear, however, how United Kingdom data protection laws or regulations will develop in the medium to longer term, and how data transfers to and from the United Kingdom will be regulated.

Each factor above or discussed elsewhere in this Annual Report on Form 10-K or the cumulative effect of some of these factors may result in fluctuations in our operating results. This variability and unpredictability could result in our failure to meet expectations with respect to operating results, or those of securities analysts or investors, for a particular period. In addition, a significant percentage of our operating expenses are fixed in nature and based on forecasted trends in revenues. Accordingly, in the event of shortfalls in revenues, we are generally unable to mitigate the negative impact on margins in the short term by reducing our operating expenses. If we fail to meet or exceed expectations for our operating results for these or any other reasons, the trading price of our common stock could fall and we could face costly lawsuits, including securities class action suits.

If we do not successfully anticipate market needs and opportunities or are unable to enhance our solutions and develop new solutions that meet those needs and opportunities on a timely or cost-effective basis, we may not be able to compete effectively and our business and financial condition may be harmed.

The IT, security and compliance market is characterized by rapid technological advances, customer price sensitivity, short product and service life cycles, intense competition, changes in customer requirements, frequent new product introductions and enhancements and evolving industry standards and regulatory mandates. Any of these factors could create downward pressure on pricing and gross margins, and could adversely affect our renewal rates, as well as our ability to attract new customers. Our future success will depend on our ability to enhance existing solutions, introduce new solutions on a timely and cost-effective basis, meet changing customer needs, extend our core technology into new applications, and anticipate and respond to emerging standards and business models. We must also continually change and improve our solutions in response to changes in operating systems, application software, computer and communications hardware, networking software, data center architectures, programming tools and computer language technology.

We may not be able to anticipate future market needs and opportunities or develop enhancements or new solutions to meet such needs or opportunities in a timely manner or at all. The market for cloud solutions for IT, security and compliance continues to evolve, and it is uncertain whether our new solutions will gain market acceptance.

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

- failure to timely meet market demand for product functionality;
- inability to identify and provide intelligence regarding the attacks or techniques used by cyber-attackers;
- inability to inter-operate effectively with the database technologies, file systems or web applications of our prospective customers;
- defects, errors or failures;
- delays in releasing our enhancements or new solutions;
- negative publicity about their performance or effectiveness;
- introduction or anticipated introduction of products by our competitors;

- poor business conditions, causing customers to delay IT, security and compliance purchases;
- easing or changing of external regulations related to IT, security and compliance; and
- reluctance of customers to purchase cloud solutions for IT, security and compliance.

Furthermore, diversifying our solutions and expanding into new IT, security and compliance markets will require significant investment and planning, require that our research and development and sales and marketing organizations develop expertise in these new markets, bring us more directly into competition with IT, security compliance providers that may be better established or have greater resources than we do, require additional investment of time and resources in the development and training of our channel partners and entail significant risk of failure.

If we fail to anticipate market requirements or fail to develop and introduce solution enhancements or new solutions to satisfy those requirements in a timely manner, such failure could substantially decrease or delay market acceptance and sales of our present and future solutions and cause us to lose existing customers or fail to gain new customers, which would significantly harm our business, financial condition and results of operations.

If we fail to continue to effectively scale and adapt our platform to meet the performance and other requirements of our customers, our operating results and our business would be harmed.

Our future growth depends upon our ability to continue to meet the expanding needs of our customers as their use of our cloud platform grows. As these customers gain more experience with our solutions, the number of users and the number of locations where our solutions are being accessed may expand rapidly in the future. In order to ensure that we meet the performance and other requirements of our customers, we intend to continue to make significant investments to develop and implement new proprietary and third-party technologies at all levels of our cloud platform. These technologies, which include databases, applications and server optimizations, and network and hosting strategies, are often complex, new and unproven. We may not be successful in developing or implementing these technologies. To the extent that we do not effectively scale our platform to maintain performance as our customers expand their use of our platform, our operating results and our business may be harmed.

If we are unable to renew existing subscriptions for our IT, security and compliance solutions, sell additional subscriptions for our solutions and attract new customers, our operating results would be harmed.

We offer our Qualys Cloud Platform and integrated suite of solutions pursuant to a software-as-a-service model, and our customers purchase subscriptions from us that are generally one year in length. Our customers have no obligation to renew their subscriptions after their subscription period expires, and they may not renew their subscriptions at the same or higher levels or at all. As a result, our ability to grow depends in part on customers renewing their existing subscriptions and purchasing additional subscriptions and solutions. Our customers may choose not to renew their subscriptions to our solutions or purchase additional solutions due to a number of factors, including their satisfaction or dissatisfaction with our solutions, the prices of our solutions, the prices of products or services offered by our competitors, reductions in our customers' spending levels due to the macroeconomic environment or other factors. If our customers do not renew their subscriptions to our solutions, renew on less favorable terms, or do not purchase additional solutions or subscriptions, our revenues may grow more slowly than expected or decline and our operating results would be harmed.

In addition, our future growth depends in part upon increasing our customer base. Our ability to achieve significant growth in revenues in the future will depend, in large part, upon continually attracting new customers and obtaining subscription renewals to our solutions from those customers. If we fail to attract new customers, our revenues may grow more slowly than expected and our operating results would be harmed.

If the market for cloud solutions for IT, security and compliance does not evolve as we anticipate, our revenues may not grow and our operating results would be harmed.

Our success depends to a significant extent on the willingness of organizations to increase their use of cloud solutions for their IT, security and compliance. To date, some organizations have been reluctant to use cloud solutions because they have concerns regarding the risks associated with the reliability or security of the technology delivery model associated with these solutions. If other cloud service providers experience security incidents, loss of customer data, disruptions in service delivery or other problems, the market for cloud solutions as a whole, including our solutions, may be negatively impacted. Moreover, many organizations have invested substantial personnel and financial resources to integrate on-premise software into their businesses, and as a result may be reluctant or unwilling to migrate to a cloud solution. Organizations that use on-premise security products, such as network firewalls, security information and event management products or data loss prevention solutions, may also believe that these products sufficiently protect their IT infrastructure and deliver adequate security. Therefore, they may continue spending their IT security budgets on these products and may not adopt our IT, security and compliance solutions in addition to or as a replacement for such products.

If customers do not recognize the benefits of our cloud solutions over traditional on-premise enterprise software products, and as a result we are unable to increase sales of subscriptions to our solutions, then our revenues may not grow or may decline, and our operating results would be harmed.

Our current research and development efforts may not produce successful products or enhancements to our platform that result in significant revenue, cost savings or other benefits in the near future.

We must continue to dedicate significant financial and other resources to our research and development efforts if we are to maintain our competitive position. However, developing products and enhancements to our platform is expensive and time consuming, and there is no assurance that such activities will result in significant new marketable products or enhancements to our platform, design improvements, cost savings, revenue or other expected benefits. If we spend significant resources on research and development and are unable to generate an adequate return on our investment, our business and results of operations may be materially and adversely affected.

Our platform, website and internal systems may be subject to intentional disruption or other security incidents that could result in liability and adversely impact our reputation and future sales.

We and our service providers face threats from a variety of sources, including attacks on our networks and systems from numerous sources, including traditional “hackers,” sophisticated nation-state and nation-state supported actors, other sources of malicious code (such as viruses and worms), and phishing attempts. We and our service providers could be a target of cyber-attacks or other malfeasance designed to impede the performance of our solutions, penetrate our network security or the security of our cloud platform or our internal systems, misappropriate proprietary information and/or cause interruptions to our services. Our solutions, platforms, and system, and those of our service providers, may also suffer security incidents as a result of non-technical issues, including intentional or inadvertent acts or omissions by our employees or service providers. With the increase in personnel working remotely during the current COVID-19 pandemic, we and our service providers are at increased risk for security breaches. We are taking steps to monitor and enhance the security of our solutions, cloud platform, and other relevant systems, IT infrastructure, networks, and data; however, the unprecedented scale of remote work may require additional personnel and resources, which nevertheless cannot be guaranteed to fully safeguard our solutions, our cloud platform, or any systems, IT infrastructure networks, or data upon which we rely. Further, because our operations involve providing IT security solutions to our customers, we may be targeted for cyber-attacks and other security incidents. A breach in our data security or an attack against our service availability, or that of our third-party service providers, could impact our networks or networks secured by our solutions, creating system disruptions or slowdowns and exploiting security vulnerabilities of our solutions, and the information stored on our networks or those of our third-party service providers could be accessed, publicly disclosed, altered, lost, or stolen, which could subject us to liability and cause us financial harm. If an actual or perceived disruption in the availability of our solutions or the breach of our security measures or those of our service providers occurs, it could adversely affect the market perception of our solutions, result in a loss of competitive advantage, have a negative impact on our reputation, or result in the loss of customers, channel partners and sales, and it may expose us to the loss or alteration of information, litigation, regulatory actions and investigations and possible liability. Any such actual or perceived security breach or disruption could also divert the efforts of our technical and management personnel. We also may incur significant costs and operational consequences of investigating, remediating, eliminating and putting in place additional tools and devices designed to prevent actual or perceived security incidents, as well as the costs to comply with any notification obligations resulting from any security incidents. In addition, any such actual or perceived security breach could impair our ability to operate our business and provide solutions to our customers. If this happens, our reputation could be harmed, our revenues could decline and our business could suffer.

Although we maintain insurance coverage that may be applicable to certain liabilities in the event of a security breach or other security incident, we cannot be certain that our insurance coverage will be adequate for liabilities that actually are incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material and adverse effect on our business, including our financial condition, operating results and reputation.

Our sales cycle can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, revenues may vary from period to period, which may cause our operating results to fluctuate and could harm our business.

The timing of sales of subscriptions for our solutions can be difficult to forecast because of the length and unpredictability of our sales cycle, particularly with large transactions. We sell subscriptions to our IT, security and compliance solutions primarily to IT departments that are managing a growing set of user and compliance demands, which has increased the complexity of customer requirements to be met and confirmed during the sales cycle and prolonged our sales cycle. Further, the length of time that potential customers devote to their testing and evaluation, contract negotiation and budgeting processes varies significantly, which has also made our sales cycle long and unpredictable. The length of the sales cycle for our solutions typically ranges from six to twelve months but can be more than eighteen months. 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 revenues, which could harm our business.

Adverse economic conditions or reduced IT spending may adversely impact our business.

Our business depends on the overall demand for IT and on the economic health of our current and prospective customers. Economic weakness, customer financial difficulties, and constrained spending on IT security may result in decreased revenue and earnings. Such factors could make it difficult to accurately forecast our sales and operating results and could negatively affect our ability to provide accurate forecasts to our contract manufacturers. In addition, continued governmental budgetary challenges in the United States and Europe and geopolitical turmoil in many parts of the world have and may continue to put pressure on global economic conditions and overall spending on IT security. General economic weakness may also lead to longer collection cycles for payments due from our customers, an increase in customer bad debt, restructuring initiatives and associated expenses, and impairment of investments. Furthermore, the continued weakness and uncertainty in worldwide credit markets, including the sovereign debt situation in certain countries in the European Union, may adversely impact our customers' available budgetary spending, which could lead to delays in planned purchases of our solutions.

Additionally, concerns regarding the effects of the "Brexit" decision, uncertainties related to changes in public policies such as domestic and international regulations, taxes or international trade agreements as well as geopolitical turmoil and other disruptions to global and regional economies and markets in many parts of the world, have and may continue to put pressure on global economic conditions and overall spending on IT security. We have operations, as well as current and potential customers, throughout most of Europe. If economic conditions in Europe and other key markets for our platform continue to remain uncertain or deteriorate further, many customers may delay or reduce their IT spending.

Uncertainty about future economic conditions also makes it difficult to forecast operating results and to make decisions about future investments. Future or continued economic weakness for us or our customers, failure of our customers and markets to recover from such weakness, customer financial difficulties, and reductions in spending on IT security could have a material adverse effect on demand for our platform and consequently on our business, financial condition and results of operations.

Our IT, security and compliance solutions are delivered from eight data centers, and any disruption of service at these facilities would interrupt or delay our ability to deliver our solutions to our customers which could reduce our revenues and harm our operating results.

We currently host substantially all of our solutions from third-party data centers located in the United States, Canada, Switzerland, the Netherlands, United Arab Emirates and India. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cybersecurity attacks, terrorist attacks, employee negligence, power losses, telecommunications failures and similar events. The facilities also could be subject to break-ins, sabotage, intentional acts of vandalism and other misconduct. The occurrence of a natural disaster, an act of terrorism or misconduct, a decision to close the facilities without adequate notice or other unanticipated problems could result in interruptions in our services.

Some of our data centers are not currently redundant and we may not be able to rapidly move our customers from one data center to another, which may increase delays in the restoration of our service for our customers if an adverse event occurs. We have added data center facilities to provide additional capacity for our cloud platform and to enable disaster recovery. We continue to build out these facilities; however, these additional facilities may not be operational in the anticipated time-frame and we may incur unplanned expenses.

Additionally, our existing data center facilities providers have no obligations to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements with the facilities providers on commercially reasonable terms or if in the future we add additional data center facility providers, we may experience costs or downtime in connection with the loss of an existing facility or the transfer to, or addition of, new data center facilities.

Any disruptions or other performance problems with our solutions could harm our reputation and business and may damage our customers' businesses. Interruptions in our service delivery might reduce our revenues, cause us to issue credits to customers, subject us to potential liability and cause customers to terminate their subscriptions or not renew their subscriptions.

We face competition in our markets, and we may lack sufficient financial or other resources to maintain or improve our competitive position.

We compete with a large range of established and emerging vulnerability management vendors, compliance vendors and data security vendors in a highly fragmented and competitive environment. We face significant competition for each of our solutions from companies with broad product suites and greater name recognition and resources than we have, as well as from small companies focused on specialized security solutions.

We compete with large and small public companies, such as Belden (Tripwire), Broadcom (Symantec Enterprise Security), CrowdStrike, F5 Networks, FireEye, International Business Machines, McAfee, Micro Focus International, Palo Alto Networks, Rapid7, Tenable Holdings and VMware, as well as privately held security providers including Barracuda Networks, BeyondTrust Software, Flexera, Forescout Technologies, Imperva, SentinelOne, Tanium, Trustwave Holdings, Venafi, and Veracode. We also seek to replace IT, security and compliance solutions that organizations have developed internally. As we continue to extend our cloud platform's functionality by further developing IT, security and compliance solutions, such as web application scanning and firewalls, we expect to face additional competition in these new markets. Our competitors may also attempt to further expand their presence in the IT, security and compliance market and compete more directly against one or more of our solutions.

We believe that the principal competitive factors affecting our markets include product functionality, breadth of offerings, flexibility of delivery models, ease of deployment and use, total cost of ownership, scalability and performance, customer support and extensibility of platform. Many of our existing and potential competitors have competitive advantages, including:

- greater brand name recognition;
- larger sales and marketing budgets and resources;
- broader distribution networks and more established relationships with distributors and customers;
- access to larger customer bases;
- greater customer support resources;
- greater resources to make acquisitions;
- greater resources to develop and introduce products that compete with our solutions;
- greater resources to meet relevant regulatory requirements; and
- substantially greater financial, technical and other resources.

As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. With the introduction of new technologies, the evolution of our service and new market entrants, we expect competition to intensify in the future.

In addition, some of our larger competitors have substantially broader product offerings and can bundle competing products and services with other software offerings. As a result, customers may choose a bundled product offering from our competitors, even if individual products have more limited functionality than our solutions. These competitors may also offer their products at a lower price as part of this larger sale, which could increase pricing pressure on our solutions and cause the average sales price for our solutions to decline. These larger competitors are also often in a better position to withstand any significant reduction in capital spending, and will therefore not be as susceptible to economic downturns.

Furthermore, our current and potential competitors may establish cooperative relationships among themselves or with third parties that may further enhance their resources and product and services offerings in the markets we address. In addition, current or potential competitors may be acquired by third parties with greater available resources. As a result of such relationships and 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. For all of these reasons, we may not be able to compete successfully against our current or future competitors.

The sales prices of our solutions are subject to competitive pressures and may decrease, which may reduce our gross profits and adversely impact our financial results.

The sales prices for our solutions may decline for a variety of reasons, including competitive pricing pressures, discounts, a change in our mix of solutions and subscriptions, anticipation of the introduction of new solutions or subscriptions, or promotional programs. Competition continues to increase in the market segments in which we participate, and we expect competition to further increase in the future, thereby leading to increased pricing pressures. Larger competitors with more diverse product and service offerings may reduce the price of products or subscriptions that compete with ours or may bundle them with other products and subscriptions. Additionally, although we price our products and subscriptions worldwide in U.S. Dollars, Euros, British Pounds, Canadian Dollars, Japanese Yen and Indian Rupee, currency fluctuations in certain countries and regions may negatively impact actual prices that partners and customers are willing to pay in those countries and regions, or the effective prices we realize in our reporting currency. We cannot assure you that we will be successful in developing and introducing new offerings with enhanced functionality on a timely basis, or that our new product and subscription offerings, if introduced, will enable us to maintain our prices and gross profits at levels that will allow us to maintain positive gross margins and profitability.

If our solutions fail to help our customers achieve and maintain compliance with regulations and industry standards, our revenues and operating results could be harmed.

We generate a portion of our revenues from solutions that help organizations achieve and maintain compliance with regulations and industry standards. For example, many of our customers subscribe to our IT, security and compliance solutions to help them comply with the security standards developed and maintained by the Payment Card Industry Security Standards Council, or the PCI Council, which apply to companies that store cardholder data. Industry organizations like the PCI Council may significantly change their security standards with little or no notice, including changes that could make their standards 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 the demand for or value of our solutions.

If we are unable to adapt our solutions to changing regulatory standards in a timely manner, or if our solutions fail to assist with or expedite our customers' compliance initiatives, our customers may lose confidence in our solutions and could switch to products offered by our competitors. In addition, if regulations and standards related to data security, vulnerability management and other IT, security and compliance requirements are relaxed or the penalties for non-compliance are changed 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 solutions. In any of these cases, our revenues and operating results could be harmed.

If our solutions fail to detect vulnerabilities or incorrectly detect vulnerabilities, our brand and reputation could be harmed, which could have an adverse effect on our business and results of operations.

If our solutions fail to detect vulnerabilities in our customers' IT infrastructures, or if our solutions fail to identify and respond to new and increasingly complex methods of attacks, our business and reputation may suffer. There is no guarantee that our solutions will detect all vulnerabilities. Additionally, our IT, security and compliance solutions may falsely detect vulnerabilities or threats that do not actually exist. For example, some of our solutions rely on information on attack sources aggregated from third-party data providers who monitor global malicious activity originating from a variety of sources, including anonymous proxies, specific IP addresses, botnets and phishing sites. If the information from these data providers is inaccurate, the potential for false indications of security vulnerabilities increases. These false positives, while typical in the industry, may impair the perceived reliability or usability of our solutions and may therefore adversely impact market acceptance of our solutions and could result in negative publicity, loss of customers and sales, increased costs to remedy any incorrect information or problem, or claims by aggrieved parties. Similar issues may be generated by the misuse of our tools to identify and exploit vulnerabilities.

Further, our solutions sometimes are tested against other security products, and may fail to perform as effectively, or to be perceived as performing as effectively, as competitive products for any number of reasons, including misconfiguration. To the extent current or potential customers, channel partners, or others believe there has been an occurrence of an actual or perceived failure of our solutions to detect a vulnerability or otherwise to function as effectively as competitive products in any particular test, or indicates our solutions do not provide significant value, our business, competitive position, and reputation could be harmed.

In addition, our solutions do not currently extend to cover mobile devices or personal devices that employees may bring into an organization. As such, our solutions would not identify or address vulnerabilities in mobile devices, such as mobile phones or tablets, or personal devices, and our customers' IT infrastructures may be compromised by attacks that infiltrate their networks through such devices.

An actual or perceived security breach or theft of the sensitive data of one of our customers, regardless of whether the breach is attributable to the failure of our solutions, could adversely affect the market's perception of our security solutions.

If we are unable to continue the expansion of our sales force, sales of our solutions and the growth of our business would be harmed.

We believe that our growth will depend, to a significant extent, on our success in recruiting and retaining a sufficient number of qualified sales personnel and their ability to obtain new customers, manage our existing customer base and expand the sales of our newer solutions. We plan to continue to expand our sales force and make a significant investment in our sales and marketing activities. Our recent hires and planned hires may not become as productive as quickly as we would like, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the competitive markets where we do business. Competition for highly skilled personnel is frequently intense and we may not be able to compete for these employees. If we are unable to recruit and retain a sufficient number of productive sales personnel, sales of our solutions and the growth of our business may be harmed. Additionally, if our efforts do not result in increased revenues, our operating results could be negatively impacted due to the upfront operating expenses associated with expanding our sales force.

We rely on third-party channel partners to generate a substantial amount of our revenues, and if we fail to expand and manage our distribution channels, our revenues could decline and our growth prospects could suffer.

Our success significantly depends upon establishing and maintaining relationships with a variety of channel partners and we anticipate that we will continue to depend on these partners in order to grow our business. For the years ended December 31, 2020, 2019 and 2018, we derived approximately 42%, 42% and 41%, respectively, of our revenues from sales of subscriptions for our solutions through channel partners, and the percentage of revenues derived from channel partners may increase in future periods. Our agreements with our channel partners are generally non-exclusive and do not prohibit them from working with our competitors or offering competing solutions, and many of our channel partners have more established relationships with our competitors. If our channel partners choose to place greater emphasis on products of their own or those offered by our competitors, do not effectively market and sell our solutions, or fail to meet the needs of our customers, then our ability to grow our business and sell our solutions may be adversely affected. In addition, the loss of one or more of our larger channel partners, who may cease marketing our solutions with limited or no notice, and our possible inability to replace them, could adversely affect our sales. Moreover, our ability to expand our distribution channels depends in part on our ability to educate our channel partners about our solutions, which can be complex. Our failure to recruit additional channel partners, or any reduction or delay in their sales of our solutions or conflicts between channel sales and our direct sales and marketing activities may harm our results of operations. Even if we are successful, these relationships may not result in greater customer usage of our solutions or increased revenues.

In addition, the financial health of our channel partners and our continuing relationships with them are important to our success. Some of these channel partners may be unable to withstand adverse changes in economic conditions, which could result in insolvency and/or the inability of such distributors to obtain credit to finance purchases of our products and services. In addition, weakness in the end-user market could negatively affect the cash flows of our channel partners who could, in turn, delay paying their obligations to us, which would increase our credit risk exposure. Our business could be harmed if the financial condition of some of these channel partners substantially weakened and we were unable to timely secure replacement channel partners.

A significant portion of our customers, channel partners and employees are located outside of the United States, which subjects us to a number of risks associated with conducting international operations, and if we are unable to successfully manage these risks, our business and operating results could be harmed.

We market and sell subscriptions to our solutions throughout the world and have personnel in many parts of the world. In addition, we have sales offices and research and development facilities outside the United States and we conduct, and expect to continue to conduct, a significant amount of our business with organizations that are located outside the United States, particularly in Europe and Asia. Therefore, we are subject to risks associated with having international sales and worldwide operations, including:

- foreign currency exchange fluctuations;
- trade and foreign exchange restrictions;
- economic or political instability in foreign markets, including as a result of increasing tensions between India and China;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;
- changes in regulatory requirements;
- tax laws (including U.S. taxes on foreign subsidiaries);

- difficulties and costs of staffing and managing foreign operations;
- the uncertainty and limitation of protection for intellectual property rights in some countries;
- costs of compliance with foreign laws and regulations and the risks and costs of non-compliance with such laws and regulations;
- costs of complying with U.S. laws and regulations for foreign operations, including the Foreign Corrupt Practices Act, import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell our solutions in certain foreign markets, and the risks and costs of non-compliance;
- heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, and irregularities in, financial statements;
- the potential for political unrest, acts of terrorism, hostilities or war;
- management communication and integration problems resulting from cultural differences and geographic dispersion; and
- multiple and possibly overlapping tax structures.

Our business, including the sales of subscriptions of our solutions, may be subject to foreign governmental regulations, which vary substantially from country to country and change from time to time. Failure to comply with these regulations could adversely affect our business. Further, in many foreign countries it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. regulations applicable to us. Although we have implemented policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that all of our employees, contractors, channel partners and agents have complied or will comply with these laws and policies. Violations of laws or key control policies by our employees, contractors, channel partners or agents could result in delays in revenue recognition, financial reporting misstatements, fines, penalties or the prohibition of the importation or exportation of our solutions and could have a material adverse effect on our business and results of operations. If we are unable to successfully manage the challenges of international operations, our business and operating results could be adversely affected.

In addition, as of December 31, 2020 , approximately 73% of our employees were located outside of the United States, of which 63% of our employees were located in Pune, India. Accordingly, we are exposed to changes in laws governing our employee relationships in various U.S. and foreign jurisdictions, including laws and regulations regarding wage and hour requirements, fair labor standards, employee data privacy, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll and other taxes which may have a direct impact on our operating costs. We may continue to expand our international operations and international sales and marketing activities. Expansion in international markets has required, and will continue to require, significant management attention and resources. We may be unable to scale our infrastructure effectively or as quickly as our competitors in these markets and our revenues may not increase to offset any increased costs and operating expenses, which would cause our results to suffer.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

Our reporting currency is the U.S. dollar and we generate a majority of our revenues in U.S. dollars. However, for the year ended December 31, 2020, we incurred approximately 28% of our expenses in foreign currencies, primarily Euros, British Pounds, and Indian Rupee, principally with respect to salaries and related personnel expenses associated with our European and Indian operations. Additionally, for the year ended December 31, 2020, approximately 21% of our revenues were generated in foreign currencies. Accordingly, changes in exchange rates may have a material adverse effect on our business, operating results and financial condition. The exchange rate between the U.S. dollar and foreign currencies has fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs, as well as capital and operating expenditures, will continue to be denominated in the Euro, British Pound and Indian Rupee. The results of our operations may be adversely affected by foreign exchange fluctuations.

We use derivative financial instruments to reduce our foreign currency exchange risks. We use foreign currency forward contracts to mitigate the impact of foreign currency fluctuations of certain non-U.S. dollar denominated net asset positions, to date primarily cash, accounts receivable and operating lease liabilities (non-designated), as well as to manage foreign currency fluctuation risk related to forecasted transactions (designated). However, we may not be able to purchase derivative instruments that are adequate to insulate ourselves from foreign currency exchange risks. Additionally, our hedging activities may contribute to increased losses as a result of volatility in foreign currency markets.

Our business and operations have experienced significant growth, and if we do not appropriately manage any future growth, or are unable to improve our systems and processes, our operating results may be negatively affected.

We have experienced significant growth over the last several years. From 2018 to 2020, our revenues grew from $278.9 million to $363.0 million, and our headcount increased from 869 employees at the beginning of 2018 to 1,498 employees as of December 31, 2020. We rely on information technology systems to help manage critical functions such as order processing, revenue recognition and financial forecasts. To manage any future growth effectively we must continue to improve and expand our IT systems, financial infrastructure, and operating and administrative systems and controls, and continue to manage headcount, capital and processes in an efficient manner. We may not be able to successfully implement improvements to these systems and processes in a timely or efficient manner.

Our failure to improve our systems and processes, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to accurately forecast our revenues, expenses and earnings, or to prevent certain losses. In addition, as we continue to grow, our productivity and the quality of our solutions may also be adversely affected if we do not integrate and train our new employees quickly and effectively. Any future growth would add complexity to our organization and require effective coordination across our organization. Failure to manage any future growth effectively could result in increased costs, harm our results of operations and lead to investors losing confidence in our internal systems and processes.

We depend on the continued services and performance of our senior management and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.

Our future performance depends on the continued services and continuing contributions of our senior management, particularly Philippe F. Courtot, our Chairman and Chief Executive Officer, and other key employees, to execute on our business plan and to identify and pursue new opportunities and product innovations. We do not maintain key-man insurance for Mr. Courtot or for any other member of our senior management team. From time to time, there may be changes in our senior management team resulting from the termination or departure of executives. Our senior management and key employees are generally employed on an at-will basis, which means that they could terminate their employment with us at any time. In February 2021, we announced that Mr. Courtot was taking a medical leave of absence and Sumedh Thakar, our President and Chief Product Officer, had been appointed interim Chief Executive Officer and principal executive officer. The loss of the services of our senior management, particularly Mr. Courtot, or other key employees for any reason could significantly delay or prevent the achievement of our development and strategic objectives and harm our business, financial condition and results of operations.

If we are unable to hire, retain and motivate qualified personnel, our business may suffer.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel or delays in hiring required personnel, particularly in engineering and sales, may seriously harm our business, financial condition and results of operations. Any of our employees may terminate their employment at any time. Competition for highly skilled personnel is frequently intense, especially in the San Francisco Bay Area and Pune, India, locations in which we have a substantial presence and need for highly skilled personnel and we may not be able to compete for these employees.

We are required under accounting principles generally accepted in the United States (U.S. GAAP) to recognize compensation expense in our operating results for employee stock-based compensation under our equity grant programs, which may negatively impact our operating results and may increase the pressure to limit stock-based compensation that we might otherwise offer to current or potential employees, thereby potentially harming our ability to attract or retain highly skilled personnel. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information, which could result in a diversion of management’s time and our resources.

A portion of our revenues are generated by sales to government entities, which are subject to a number of challenges and risks.

Government entities have historically been particularly concerned about adopting cloud-based solutions for their operations, including security solutions, and increasing sales of subscriptions for our solutions to government entities may be more challenging than selling to commercial organizations. Selling to government entities can be highly competitive, expensive and time-consuming, often requiring significant upfront time and expense without any assurance that we will win a sale. We have invested in the creation of a cloud offering certified under the Federal Information Security Management Act for government usage but we cannot be sure that we will continue to sustain or renew this certification, that the government will continue to mandate such certification or that other government agencies or entities will use this cloud offering. Government demand and payment for our solutions may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions. Government entities may have contractual or other legal rights to terminate contracts with our channel partners for convenience or due to a default, and any such termination may adversely impact our future results of operations. Governments routinely investigate and audit government contractors’ administrative processes, and any unfavorable audit could result in the government refusing to continue buying our solutions, a reduction of revenues or fines or civil or criminal liability if the audit uncovers improper or illegal activities. Any such penalties could adversely impact our results of operations in a material way.

Our success in acquiring and integrating other businesses, products or technologies could impact our financial position.

In order to remain competitive, we have in the past and may in the future seek to acquire additional businesses, products, services or technologies. For example, we acquired 1Mobility on April 1, 2018, Layered Insight on October 16, 2018, Adya on January 10, 2019, and certain intellectual property of Spell Security on July 24, 2020. The environment for acquisitions in our industry is very competitive and acquisition candidate purchase prices may exceed what we would prefer to pay. Moreover, achieving the anticipated benefits of future acquisitions will depend in part upon whether we can integrate acquired operations, products and technology in a timely and cost-effective manner, and even if we achieve benefits from acquisitions, such acquisitions may still be viewed negatively by customers, financial markets or investors. The acquisition and integration process is complex, expensive and time-consuming, and may cause an interruption of, or loss of momentum in, product development and sales activities and operations of both companies, as well as divert the attention of management, and we may incur substantial cost and expense. We may issue equity securities which could dilute current stockholders' ownership, incur debt, assume contingent or other liabilities and expend cash in acquisitions, which could negatively impact our financial position, stockholder equity and stock price. We may not find suitable acquisition candidates, and acquisitions we complete may be unsuccessful. If we consummate a transaction, we may be unable to integrate and manage acquired products and businesses effectively or retain key personnel. If we are unable to effectively execute acquisitions, our business, financial condition and operating results could be adversely affected.

We rely on software-as-a-service vendors to operate certain functions of our business and any failure of such vendors to provide services to us could adversely impact our business and operations.

We rely on third-party software-as-a-service vendors to operate certain critical functions of our business, including financial management and human resource management. If these services become unavailable due to extended outages or interruptions or because they are no longer available on commercially reasonable terms or prices, our expenses could increase, our ability to manage our finances could be interrupted and our processes for managing sales of our solutions and supporting our customers could be impaired until equivalent services, if available, are identified, obtained and integrated, all of which could harm our business.

Delays or interruptions in the manufacturing and delivery of our physical scanner appliances by our sole source manufacturer may harm our business.

Upon customer request, we provide physical or virtual scanner appliances on a subscription basis as an additional capability to the customer's subscription for use during their subscription term. Our physical scanner appliances are built by a single manufacturer. Our reliance on a sole manufacturer involves several risks, including a potential inability to obtain an adequate supply of physical scanner appliances and limited control over pricing, quality and timely deployment of such scanner appliances. In addition, replacing this manufacturer may be difficult and could result in an inability or delay in deploying our solutions to customers that request physical scanner appliances as part of their subscriptions.

Furthermore, our manufacturer's ability to timely manufacture and ship our physical scanner appliances depends on a variety of factors, such as the availability of hardware components, supply shortages or contractual restrictions. In the event of an interruption from this manufacturer, we may not be able to develop alternate or secondary sources in a timely manner. If we are unable to purchase physical scanner appliances in quantities sufficient to meet our requirements on a timely basis, we may not be able to effectively deploy our solutions to new customers that request physical scanner appliances, which could harm our business.

Incorrect or improper implementation or use of our solutions could result in customer dissatisfaction and harm our business and reputation.

If our customers are unable to implement our solutions successfully, customer perceptions of our platform and solutions may be impaired or our reputation and brand may suffer. Our customers have in the past inadvertently misused our solutions, which triggered downtime in their internal infrastructure until the problem was resolved. Additionally, any failure to implement and configure our solutions correctly may result in our solutions failing to detect vulnerabilities or compliance issues, or otherwise to perform effectively, and may result in disruptions to our customers' IT environments and businesses. Any misuse of our solutions, including any failure to implement and configure them appropriately, could result in disruption to our customers' businesses, customer dissatisfaction, negative impacts on the perceived reliability or effectiveness of our solutions, and claims and litigation, and may result in negative press coverage, negative effects on our reputation and competitive position, a loss of sales, customers, and channel partners, and harm our financial results.

We recognize revenues from subscriptions over the term of the relevant service period, and therefore any decreases or increases in bookings are not immediately reflected in our operating results.

We recognize revenues from subscriptions over the term of the relevant service period, which is typically one year. As a result, most of our reported revenues in each quarter are derived from the recognition of deferred revenues relating to subscriptions entered into during previous quarters. Consequently, a shortfall in demand for our solutions in any period may not significantly reduce our revenues for that period, but could negatively affect revenues in future periods. Accordingly, the effect of significant downturns in bookings may not be fully reflected in our results of operations until future periods. We may be unable to adjust our costs and expenses to compensate for such a potential shortfall in revenues. Our subscription model also makes it difficult for us to rapidly increase our revenues through additional bookings in any period, as revenues are recognized ratably over the subscription period.

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

A significant natural disaster, such as an earthquake, fire or a flood, or a significant power outage could have a material adverse impact on our business, operating results and financial condition. Our corporate headquarters and a significant portion of our operations are located in the San Francisco Bay Area, a region known for seismic activity. In addition, natural disasters could affect our business partners' ability to perform services for us on a timely basis. In the event we or our business partners are hindered by any of the events discussed above, our ability to provide our solutions to customers could be delayed, resulting in our missing financial targets, such as revenues and net income, for a particular quarter. Further, if a natural disaster occurs in a region from which we derive a significant portion of our revenues, customers in that region may delay or forego subscriptions of our solutions, which may materially and adversely impact our results of operations for a particular period. In addition, acts of terrorism could cause disruptions in our business or the business of our business partners, customers or the economy as a whole. All of the aforementioned risks may be exacerbated if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above results in delays of customer subscriptions or commercialization of our solutions, our business, financial condition and results of operations could be adversely affected.

Risks Related to Intellectual Property, Legal, Tax and Regulatory Matters

Undetected software errors or flaws in our solutions could harm our reputation, decrease market acceptance of our solutions or result in liability.

Our solutions may contain undetected errors or defects when first introduced or as new versions are released. We have experienced these errors or defects in the past in connection with new solutions and solution upgrades and we expect that these errors or defects will be found from time to time in the future in new or enhanced solutions after commercial release of these solutions. Since our customers use our solutions for IT, security and compliance reasons, any errors, defects, disruptions in service or other performance problems with our solutions, or any other failure of our solutions to detect vulnerabilities or compliance problems or otherwise to perform effectively, may result in disruptions or damage to the business of our customers, including security breaches or compliance failures. Additionally, any such issues, or the perception that they have occurred, whether or not relating to any actual or perceived error or defect in our solutions, could hurt our reputation and competitive position and we may incur significant costs, the attention of key personnel could be diverted, our customers may delay or withhold payment to us or elect not to renew, we could face a loss of sales, customers, and channel partners, and other significant problems with our relationships with customers and channel partners may arise. We may also be subject to liability claims for damages related to actual or perceived errors or defects in our solutions. A material liability claim or other occurrence that harms our reputation or decreases market acceptance of our solutions may harm our business, competitive and financial position, and operating results.

Although we maintain insurance coverage that may be applicable to certain liabilities in connection with these matters, we cannot be certain that our insurance coverage will be adequate for liabilities that actually are incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material and adverse effect on our business, including our financial condition, operating results and reputation.

Our solutions could be used to collect and store personal information of our customers' employees or customers, and therefore privacy and other data handling concerns could result in additional cost and liability to us or inhibit sales of our solutions.

We collect the names and email addresses of our customers in connection with subscriptions to our solutions. Additionally, the data that our solutions collect to help secure and protect the IT infrastructure of our customers may include additional personal or confidential information of our customers' employees and their customers. Personal privacy has become a significant issue in the United States and in many other countries where we offer our solutions. The regulatory framework for privacy issues worldwide is currently evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use, disclosure and retention of personal information. In the United States, these include, for example, rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, the Gramm-Leach-Bliley Act, and state breach notification laws. Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal framework with which we or our customers must comply.

These privacy, data protection and information security laws and regulations may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. Additionally, new laws and regulations relating to privacy and data protection continue to be proposed and enacted. For example, the European Union has adopted the GDPR. This regulation, which took effect in May of 2018, causes EU data protection requirements to be more stringent and provides for greater penalties. The GDPR may be subject to new or changing interpretations by courts, and our interpretation of the law and efforts to comply with the rules and regulations of the law may be ruled invalid. Noncompliance with the GDPR can trigger fines of up to €20 million or 4% of global annual revenues, whichever is higher. Similarly, California recently enacted the California Consumer Privacy Act ("CCPA"), which, among other things, requires covered companies to provide new disclosures to California consumers and afford such consumers new rights to opt-out of certain sales of personal information. The CCPA creates a private right of action for statutory damages for certain breaches of information. Aspects of the CCPA and its interpretation remain unclear. Additionally, a new privacy law, the California Privacy Rights Act ("CPRA"), was approved by voters in the November 3, 2020 election. The CPRA modifies the CCPA significantly, creating obligations relating to consumer data beginning on January 1, 2022, with implementing regulations expected on or before July 1, 2022, and enforcement beginning July 1, 2023. Passage of the CPRA has resulted in further uncertainty and may require us to incur additional costs and expenses in an effort to comply. In addition, other states have enacted or proposed legislation that regulates the collection, use, and sale of personal information, and such regimes might not be compatible with the GDPR, the CCPA or the CPRA or may require us to undertake additional practices. Accordingly, we cannot yet predict the impact of the CCPA, CRPA or other evolving privacy and data protection obligations on our business or operations, but it may require us to modify our data processing practices and policies and incur substantial costs and expenses in an effort to comply.

The privacy, data protection, and information security laws and regulations we must comply with also are subject to change. For example, the United Kingdom enacted a Data Protection Act in May 2018 that substantially implements the GDPR, but the United Kingdom's exit from the European Union, commonly referred to as "Brexit," could lead to further legislative and regulatory changes. It remains unclear how United Kingdom data protection laws or regulations will develop in the medium to longer term and how data transfers to and from the United Kingdom will be regulated. Additionally, we have joined the EU-U.S. Privacy Shield Framework and a related program, the Swiss-U.S. Privacy Shield Framework and make use of certain model clauses approved by the European Commission (the "SCCs"), with regard to certain transfers of personal data from the European Economic Area ("EEA") to the U.S. Both the EU-U.S. Privacy Shield Framework and SCCs have been subject to legal challenge, however, and on July 16, 2020, the Court of Justice of the European Union ("CJEU") issued a decision that invalidated the EU-U.S. Privacy Shield and imposed additional obligations on companies when relying on the SCCs. This CJEU decision may result in European data protection regulators applying differing standards for, and requiring ad hoc verification of, transfers of personal data from Europe to the U.S. We are analyzing the impacts of this decision, and we may find it necessary or appropriate to take different or additional steps with respect to transfers of personal data, which may result in increased costs of compliance and limitations on our customers and us. We may be unsuccessful in maintaining legitimate means for our transfer and receipt of personal data from the EEA or Switzerland. We may experience reluctance or refusal by current or prospective European customers to use our products, and we and our customers may face a risk of enforcement actions by data protection authorities in the EEA relating to personal data transfers to us and by us from the EEA. Any such enforcement actions could result in substantial costs and diversion of resources, distract management and technical personnel and negatively affect our business, operating results and financial condition. Some countries also are considering or have passed legislation requiring local storage and processing of data, or similar requirements, which could increase the cost and complexity of delivering our services.

In addition to laws and regulations, privacy advocacy and industry groups or other private parties may propose new and different privacy standards that either legally or contractually apply to us. Because the interpretation and application of privacy and data protection laws, regulations, standards and contractual obligations are uncertain, it is possible that they may be interpreted and applied in a manner that is, or perceived to be, inconsistent with our data management practices or the features of our solutions. If so, in addition to the possibility of regulatory investigations and enforcement actions, fines, lawsuits and other claims, other forms of injunctive or operations-limiting relief, and damage to our reputations and loss of goodwill, we could be required to fundamentally change our business activities and practices or modify our solutions and may face limitations in our ability to develop new solutions and features, any of which could have an adverse effect on our business. Any inability to adequately address privacy concerns, even if unfounded, or any actual or perceived inability to comply with applicable privacy or data protection laws, regulations and privacy standards, could result in cost and liability to us, damage our reputation, inhibit sales of subscriptions and harm our business.

Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and privacy standards that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our solutions. Privacy concerns, whether valid or not valid, may inhibit market adoption of our solutions particularly in certain industries and foreign countries.

Our solutions contain third-party open source software components, and our failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our solutions.

Our solutions contain software licensed to us by third-parties under so-called "open source" licenses, including the GNU General Public License, the GNU Lesser General Public License, the BSD License, the Apache License and others. From time to time, there have been claims against companies that distribute or use open source software in their products and services, asserting that such open source software infringes the claimants' intellectual property rights. We could be subject to suits by parties claiming that what we believe to be licensed open source software infringes their intellectual property rights. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. In addition, certain open source licenses require that source code for software programs that are subject to the license be made available to the public and that any modifications or derivative works to such open source software continue to be licensed under the same terms. If we combine our proprietary software with open source software in certain ways, we could, in some circumstances, be required to release the source code of our proprietary software to the public. Disclosing the source code of our proprietary software could make it easier for cyber attackers and other third parties to discover vulnerabilities in or to defeat the protections of our solutions, which could result in our solutions failing to provide our customers with the security they expect from our services. This could harm our business and reputation. Disclosing our proprietary source code also could allow our competitors to create similar products with lower development effort and time and ultimately could result in a loss of sales for us. Any of these events could have a material adverse effect on our business, operating results and financial condition.

Although we monitor our use of open source software in an effort both to comply with the terms of the applicable open source licenses and to avoid subjecting our solutions to conditions we do not intend, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our solutions. In this event, we could be required to seek licenses from third parties to continue offering our solutions, to make our proprietary code generally available in source code form, to re-engineer our solutions or to discontinue the sale of our solutions if re-engineering could not be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition.

We use third-party software and data that may be difficult to replace or cause errors or failures of our solutions that could lead to lost customers or harm to our reputation and our operating results.

We license third-party software as well as security and compliance data from various third parties to deliver our solutions. In the future, this software or data may not be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of this software or data could result in delays in the provisioning of our solutions until equivalent technology or data is either developed by us, or, if available, is identified, obtained and integrated, which could harm our business. In addition, any errors or defects in or failures of this third-party software or data could result in errors or defects in our solutions or cause our solutions to fail, which could harm our business and be costly to correct. Many of these providers attempt to impose limitations on their liability for such errors, defects or failures, and if enforceable, we may have additional liability to our customers or third-party providers that could harm our reputation and increase our operating costs.

We will need to maintain our relationships with third-party software and data providers, and to obtain software and data from such providers that do not contain any errors or defects. Any failure to do so could adversely impact our ability to deliver effective solutions to our customers and could harm our operating results.

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

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

We primarily rely on our unpatented proprietary technology and trade secrets. Despite our efforts to protect our proprietary technology and trade secrets, unauthorized parties may attempt to misappropriate, reverse engineer or otherwise obtain and use them. The contractual provisions that we enter into with employees, consultants, partners, vendors and customers may not prevent unauthorized use or disclosure of our proprietary technology or intellectual property rights and may not provide an adequate remedy in the event of unauthorized use or disclosure of our proprietary technology or intellectual property rights. Moreover, policing unauthorized use of our technologies, solutions and intellectual property is difficult, expensive and time-consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the United States and where mechanisms for enforcement of intellectual property rights may be weak. We may be unable to determine the extent of any unauthorized use or infringement of our solutions, technologies or intellectual property rights.

The process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner, if at all. We may choose not to seek patent protection for certain innovations and may choose not to pursue patent protection in certain jurisdictions.

Furthermore, it is possible that our patent applications may not result in granted patents, that the scope of our issued patents will be limited or not provide the coverage originally sought, that our issued patents will not provide us with any competitive advantages, or that our patents and other intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. In addition, 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 patent protection or to enforce our issued patents effectively.

From time to time, legal action by us may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the intellectual property rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could negatively affect our business, operating results and financial condition. If we are unable to protect our intellectual property rights, 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 solutions that have enabled us to be successful to date.

Assertions by third parties of infringement or other violations by us of their intellectual property rights could result in significant costs and harm our business and operating results.

Patent and other intellectual property disputes are common in our industry. Some companies, including some of our competitors, own large numbers of patents, copyrights and trademarks, which they may use to assert claims against us. Third parties may in the future assert claims of infringement, misappropriation or other violations of intellectual property rights against us. They may also assert such claims against our customers or channel partners whom we typically indemnify against claims that our solutions infringe, misappropriate or otherwise violate the intellectual property rights of third parties. As the numbers of products and competitors in our market increase and overlaps occur, claims of infringement, misappropriation and other violations of intellectual property rights may increase. Any claim of infringement, misappropriation or other violation of intellectual property rights by a third party, even those without merit, could cause us to incur substantial costs defending against the claim and could distract our management from our business.

The patent portfolios of our most significant competitors are larger than ours. This disparity may increase the risk that they may sue us for patent infringement and may limit our ability to counterclaim for patent infringement or settle through patent cross-licenses. In addition, future assertions of patent rights by third parties, and any resulting litigation, may involve patent holding companies or other adverse patent owners who have no relevant product revenues and against whom our own patents may therefore provide little or no deterrence or protection. There can be no assurance that we will not be found to infringe or otherwise violate any third-party intellectual property rights or to have done so in the past.

An adverse outcome of a dispute may require us to:

- pay substantial damages, including treble damages, if we are found to have willfully infringed a third party's patents or copyrights;
- cease making, licensing or using solutions that are alleged to infringe or misappropriate the intellectual property of others;
- expend additional development resources to attempt to redesign our solutions or otherwise develop non-infringing technology, which may not be successful;
- enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or intellectual property rights; and
- indemnify our partners and other third parties.

In addition, royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Some licenses may also be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Any of the foregoing events could seriously harm our business, financial condition and results of operations.

Governmental export or import controls could subject us to liability if we violate them or limit our ability to compete in foreign markets.

Our solutions are subject to U.S. export controls, specifically, the Export Administration Regulations and economic sanctions enforced by the Office of Foreign Assets Control. We incorporate encryption technology into certain of our solutions. These encryption solutions and the underlying technology may be exported only with the required export authorizations, including by license, a license exception or other appropriate government authorizations. U.S. export controls may require submission of an encryption registration, product classification and/or annual or semi-annual reports. Governmental regulation of encryption technology and regulation of imports or exports of encryption products, or our failure to obtain required import or export authorization for our solutions, when applicable, could harm our international sales and adversely affect our revenues. Compliance with applicable regulatory requirements regarding the export of our solutions, including with respect to new releases of our solutions, may create delays in the introduction of our solutions in international markets, prevent our customers with international operations from deploying our solutions throughout their globally-distributed systems or, in some cases, prevent the export of our solutions to some countries altogether. In addition, various countries regulate the import of our appliance-based solutions and have enacted laws that could limit our ability to distribute solutions or could limit our customers' ability to implement our solutions in those countries. Any new export or import restrictions, new legislation or shifting approaches in the enforcement or scope of existing regulations, or in the countries, persons or technologies targeted by such regulations, could result in decreased use of our solutions by existing customers with international operations, declining adoption of our solutions by new customers with international operations and decreased revenues. If we fail to comply with export and import regulations, we may be fined or other penalties could be imposed, including denial of certain export privileges.

If we are required to collect higher sales and use or other taxes on the solutions we sell, we may be subject to liability for past sales and our future sales may decrease.

Taxing jurisdictions, including state and local entities, have differing rules and regulations governing sales and use or other taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of sales taxes to our subscription services in various jurisdictions is unclear. It is possible that we could face sales tax audits and that our liability for these taxes could exceed our estimates as tax authorities could still assert that we are obligated to collect additional amounts as taxes from our customers and remit those taxes to those authorities. We could also be subject to audits with respect to state and international jurisdictions for which we may not accrued tax liabilities. A successful assertion that we should be collecting additional sales or other taxes on our services in jurisdictions where we have not historically done so and do not accrue for sales taxes could result in substantial tax liabilities for past sales, discourage customers from purchasing our solutions or otherwise harm our business and operating results.

Changes in our provision for income taxes or adverse outcomes resulting from examination of our income tax returns could adversely affect our operating results. We could be subject to additional taxes.

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our tax rate is affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses arising from the requirement to expense stock options, excess tax benefits from stock-based compensation, and the valuation of deferred tax assets and liabilities, including our ability to utilize our federal and state net operating losses, which were $1.4 million and $0.1 million, respectively, as of December 31, 2020. Increases in our effective tax rate could harm our operating results.

Additionally, significant judgment is required in evaluating our tax positions and our worldwide provision for taxes. During the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations, including those relating to income tax nexus, by recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the valuation of our deferred tax assets and liabilities. We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes, sales taxes and value-added taxes against us. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made.

Risks Related to Ownership of Our Common Stock

Market volatility may affect our stock price and the value of an investment in our common stock and could subject us to litigation.

The trading price of our common stock has been, and may continue to be, subject to significant fluctuations in response to a number of factors, most of which we cannot predict or control, including:

- announcements of new solutions, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- fluctuations in stock market prices and trading volumes of securities of similar companies;
- general market conditions and overall fluctuations in U.S. equity markets;
- variations in our operating results, or the operating results of our competitors;
- changes in our financial guidance or securities analysts' estimates of our financial performance;
- changes in accounting principles;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;
- additions or departures of any of our key personnel;
- announcements related to litigation;
- changing legal or regulatory developments in the United States and other countries; and
- discussion of us or our stock price by the financial press and in online investor communities.

In addition, the stock market in general, and the stocks of technology companies such as ours in particular, have experienced substantial price and volume volatility that is often seemingly unrelated to the operating performance of particular companies. These broad market fluctuations may cause the trading price of our common stock to decline. In the past, securities class action litigation has often been brought against a company after a period of volatility in the trading price of its common stock. We may become involved in this type of litigation in the future. Any securities litigation claims brought against us could result in substantial expenses and the diversion of our management's attention from our business.

Our actual operating results may differ significantly from our guidance.

From time to time, we have released, and may continue to release, guidance in our quarterly earnings conference calls, quarterly earnings releases, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which includes forward-looking statements, has been and will be based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections. Accordingly, no such person expresses any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We intend to state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to imply that actual results could not fall outside of the suggested ranges. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such third parties.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results may vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this “Risk Factors” section in this Annual Report on Form 10-K could result in our actual operating results being different from our guidance, and the differences may be adverse and material.

Concentration of ownership among our existing executive officers, directors and holders of 10% or more of our outstanding common stock may prevent new investors from influencing significant corporate decisions.

As of December 31, 2020, our executive officers, directors and holders of 10% or more of our outstanding common stock beneficially owned, in the aggregate, approximately 27.7% of our outstanding common stock. As a result, such persons, acting together, have significant ability to control our management and affairs and substantially all matters submitted to our stockholders for approval, including the election and removal of directors and approval of any significant transaction. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would benefit other stockholders.

Future sales of shares by existing stockholders could cause our stock price to decline.

The market price of shares of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers, employees and significant stockholders, a large number of shares of our common stock becoming available for sale, or the perception in the market that holders of a large number of shares intend to sell their shares. As of December 31, 2020, we had approximately 39.1 million shares of our common stock outstanding.

In addition, as of December 31, 2020, there were approximately 1.0 million restricted stock units and options to purchase approximately 2.2 million shares of our common stock outstanding. If such options are exercised and restricted stock units are released, these additional shares will become available for sale. As of December 31, 2020, we had an aggregate of 6.6 million shares of our common stock reserved for future issuance under our 2012 Equity Incentive Plan, which can be freely sold in the public market upon issuance. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock.

We cannot guarantee that our stock repurchase program will be fully consummated or that it will enhance stockholder value, and any stock repurchases we make could affect the price of our common stock.

In February 2018, we announced a $100.0 million stock repurchase program. On each of October 30, 2018, October 30, 2019, May 7, 2020 and February 10, 2021, we announced that our board of directors had authorized an increase of $100.0 million to the share repurchase program, resulting in an aggregate authorization of $500.0 million. Although our board of directors authorized this stock repurchase program, we are not obligated to repurchase any specific dollar amount or to acquire any specific number of shares. The stock repurchase program could affect the price of our common stock, increase volatility and diminish our cash reserves. In addition, it may be suspended or terminated at any time, which may result in a decrease in the price of our common stock. In the year ended December 31, 2020, we repurchased 352,000 shares of our common stock for an aggregate purchase price of approximately $126.7 million.

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

We have never declared or paid any cash dividend on our common stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Any return to stockholders will therefore be limited to the value of their stock.

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

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

- authorizing “blank check” preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock, which would increase the number of outstanding shares and could thwart a takeover attempt;
- a classified board of directors whose members can only be dismissed for cause;
- the prohibition on actions by written consent of our stockholders;
- the limitation on who may call a special meeting of stockholders;
- the establishment of advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon at stockholder meetings; and
- the requirement of at least two-thirds of the outstanding capital stock to amend any of the foregoing second through fifth provisions.

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

General Risk Factors

Disruptive technologies could gain wide adoption and supplant our cloud-based IT, security and compliance solutions, thereby weakening our sales and harming our results of operations.

The introduction of products and services embodying new technologies could render our existing solutions obsolete or less attractive to customers. Our business could be harmed if new IT, security and compliance technologies are widely adopted. We may not be able to successfully anticipate or adapt to changing technology or customer requirements on a timely basis, or at all. If we fail to keep up with technological changes or to convince our customers and potential customers of the value of our solutions even in light of new technologies, our business could be harmed and our revenues may decline.

We may not maintain profitability in the future.

We may not be able to sustain or increase our growth or maintain profitability in the future. We plan to continue to invest in our infrastructure, new solutions, research and development and sales and marketing, and as a result, we cannot assure you that we will maintain profitability. We may incur losses in the future for a number of reasons, including without limitation, the other risks and uncertainties described in this Annual Report on Form 10-K. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If our revenue growth does not meet our expectations in future periods, our financial performance may be harmed and we may not again achieve or maintain profitability in the future.

Forecasts of market growth may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, there can be no assurance that our business will grow at similar rates, or at all.

Growth forecasts relating to the expected growth in the market for IT, security and compliance and other markets are subject to significant uncertainty and are based on assumptions and estimates which may prove to be inaccurate. Even if these markets experience the forecasted growth, we may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, forecasts of market growth should not be taken as indicative of our future growth.

Our financial results are based in part on our estimates or judgments relating to our critical accounting policies. These estimates or judgments may prove to be incorrect, which could harm our operating results and result in a decline in our stock price.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled “Part II, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenues and expenses that are not readily apparent from other sources. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, accounting for income taxes, stock-based compensation, and fair value measurement.

Changes in financial accounting standards may cause adverse and unexpected revenue fluctuations and impact our reported results of operations.

We prepare our financial statements in accordance with U.S. GAAP. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these accounting standards or practices could harm our operating results and could have a significant effect on our reporting of transactions and reported results and may even retroactively affect previously reported transactions. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may harm our operating results or require that we make significant changes to our systems, processes and controls or the way we conduct our business.

If we fail to maintain an effective system of internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the NASDAQ Stock Market. To continue to comply with the requirements of being a public company, we may need to undertake various actions, such as implementing additional internal controls and procedures and hiring additional accounting or internal audit staff.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Any failure to maintain effective controls, or any difficulties encountered in their improvement, could harm our operating results or cause us to fail to meet our reporting obligations. Any failure to maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports we file with the SEC under Section 404 of the Sarbanes-Oxley Act. While we were able to assert in this Annual Report on Form 10-K that our internal control over financial reporting was effective as of December 31, 2020, we cannot predict the outcome of our testing in future periods. If we are unable to assert in any future reporting period that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls), investors may lose confidence in our operating results and our stock price could decline. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the NASDAQ Stock Market.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices are located in Foster City, California, where we occupy a 76,922 square-foot facility under a lease expiring on April 30, 2028. We also have 281,787 square feet of office space in Pune, India under a non-cancellable lease expiring in February 2025. We have additional U.S. offices in Bellevue, Washington and Raleigh, North Carolina and other offices in Courbevoie, France; Moscow, Russia; Munich, Germany; Frankfurt, Germany; Nuremberg, Germany; Milan, Italy; Almere, the Netherlands, Dubai, United Arab Emirates; Reading, United Kingdom; and Tokyo, Japan. We believe our facilities are adequate for our current needs and for the foreseeable future.

We operate principal data centers at third-party facilities in Santa Clara, California; Las Vegas, Nevada; Ashburn, Virginia; Ontario, Canada; Geneva, Switzerland; Pune, India; Dubai, United Arab Emirates; and Amsterdam, the Netherlands.

Item 3. Legal Proceedings

From time to time the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. As of December 31, 2020, there has not been at least a reasonable possibility that the Company has incurred a material loss from any ongoing legal proceedings, individually or taken together. However, litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond the Company's control. Should any of these estimates and assumptions change or prove to have been incorrect, the Company could incur significant charges related to legal matters which could have a material impact on its results of operations, financial position and cash flows.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Market Information

Our common stock is listed and traded on the Nasdaq Global Select Market under the symbol "QLYS".

Holders of Record

As of February 12, 2021, there were approximately 63 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings to fund business development and growth, and do not expect to pay any dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions and other factors that our board of directors may deem relevant.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information about our equity compensation plans as of December 31, 2020. All outstanding awards relate to our common stock.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)
Equity compensation plans approved by security holders(1)	2,215,442	$59.07	6,628,383(2)
Equity compensation plans not approved by security holders	—	$ —	—

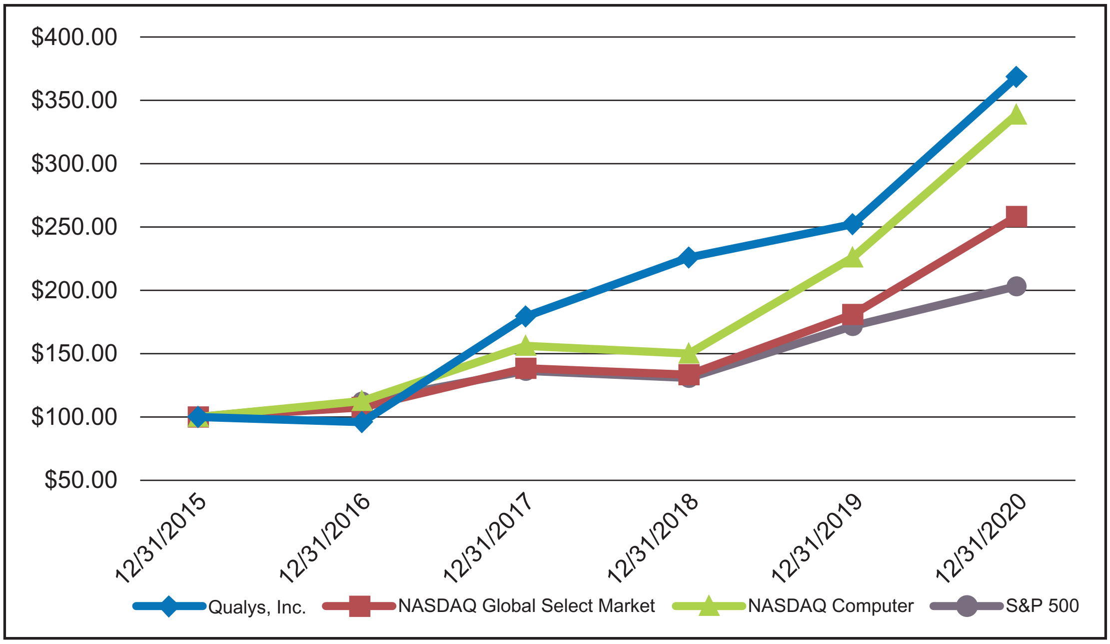
(1) Equity compensation plans approved by stockholders include our 2000 Equity Incentive Plan (2000 Plan), and our 2012 Equity Incentive Plan (2012 Plan). Prior to our initial public offering, we issued securities under our 2000 Equity Incentive Plan. Following our initial public offering, we issued securities under our 2012 Plan.

(2) Represents shares reserved for issuance under our 2012 Plan, under which incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance units and performance shares are authorized for grant to eligible participants.

Stock Price Performance Graph

The following graph shows a comparison from December 31, 2015 through December 31, 2020 of the cumulative total return for an investment of $100 (and the reinvestment of dividends) in our common stock, the NASDAQ Global Select Market Composite Index and the NASDAQ Computer Index and the S&P 500 Index. Such returns are based on historical results and are not intended to suggest future performance.

COMPARISON OF CUMULATIVE TOTAL RETURN*
Among Qualys, Inc., NASDAQ-Global Select Market Composite Index, and NASDAQ Computer Index and S&P 500 Index



* $100 invested on 12/31/15 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020
Qualys, Inc.	100.00	$ 95.65	$179.36	$225.87	251.95	$368.30
NASDAQ Global Select Market	100.00	$107.59	$138.18	$133.10	180.49	$258.17
NASDAQ Computer	100.00	$112.27	$155.80	$150.06	225.59	$338.35
S&P 500	100.00	$111.96	$136.40	$130.42	171.49	$203.04

The information on the above Stock Price Performance Graph shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended, and shall not be incorporated by reference into any registration statement or other document filed by us with the SEC, whether made before or after the date of this Annual Report on Form 10-K, regardless of any general incorporation language in such filing, except as shall be expressly set forth by specific reference in such filing.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On February 5, 2018, our board of directors authorized a $100.0 million two-year share repurchase program, which was announced on February 12, 2018. On each of October 30, 2018, October 30, 2019, May 7, 2020 and February 10, 2021, we announced that our board of directors had authorized an increase of $100.0 million to the share repurchase program, resulting in an aggregate authorization of $500.0 million. Shares may be repurchased from time to time on the open market in accordance with Rule 10b-18 of the Exchange Act of 1934, including pursuant to a pre-set trading plan adopted in accordance with Rule 10b5-1 under the Exchange Act, until February 14, 2022. All share repurchases were made using cash resources.

A summary of our repurchases of common stock during the fourth quarter of 2020 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plan or Program
October 1, 2020—October 31, 2020	121,000	$ 98.18	121,000	$124,770,122
November 1, 2020—November 30, 2020	110,000	$ 91.86	110,000	$114,663,821
December 1, 2020—December 31, 2020	121,000	$106.27	121,000	$101,802,968(1)
Total	352,000		352,000	

(1) Does not reflect the $100 million increase to our share repurchase program announced on February 10, 2021.

Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements, related notes and other financial information included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected in the future, and the results for the year ended December 31, 2020 are not necessarily indicative of operating results to be expected for any other period.

	As of December 31,				
	2020	2019	2018	2017	2016
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenues	$362,963	$321,607	$278,889	230,828	$197,925
Income from operations	$ 96,654	$ 72,253	$ 50,361	37,243	$ 30,107
Net income	$ 91,572	$ 69,336	$ 57,304	40,440	$ 19,224
Net income per share					
Basic	$ 2.34	$ 1.77	$ 1.47	1.08	$ 0.55
Diluted	$ 2.24	$ 1.68	$ 1.37	1.01	$ 0.50

	As of December 31,				
	2020	2019	2018	2017	2016
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term marketable securities	$356,024	$298,890	$289,166	288,414	$243,856
Long-term marketable securities	$ 98,458	$119,508	$ 76,710	67,224	$ 45,725
Total assets	$736,819	$675,608	$585,680	537,525	$407,004
Deferred revenues, current	$213,494	$192,172	$164,624	143,186	$114,964
Deferred revenues, noncurrent	$ 30,540	$ 20,935	$ 20,423	17,136	$ 15,528
Total stockholders' equity	$404,482	$386,803	$357,989	343,544	$258,413

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the section titled "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. You should carefully review and consider the information regarding our financial condition and results of operations set forth under Part I-Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 21, 2020, for an understanding of our results of operations and liquidity discussions and analysis comparing fiscal year 2019 to fiscal year 2018. In addition to historical information, this discussion contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially from our expectations, as discussed in "Forward-Looking Statements" in Part I of this Annual Report on Form 10-K. Factors that could cause such differences include, but are not limited to, those described in the section titled "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

Overview

We are a pioneer and leading provider of a cloud-based platform delivering IT, security and compliance solutions that enable organizations to identify security risks to their information technology (IT) infrastructures, help protect their IT systems and applications from ever-evolving cyber-attacks and achieve compliance with internal policies and external regulations. Our cloud solutions address the growing security and compliance complexities and risks that are amplified by the dissolving boundaries between internal and external IT infrastructures and web environments, the rapid adoption of cloud computing, containers and serverless IT models, and the proliferation of geographically dispersed IT assets. Our integrated suite of security and compliance solutions delivered on our Qualys Cloud Platform enables our customers to identify and manage their IT assets, collect and analyze large amounts of IT security data, discover and prioritize vulnerabilities, recommend remediation actions and verify the implementation of such actions. Organizations use our integrated suite of solutions delivered on our Qualys Cloud Platform to cost-effectively obtain a unified view of their IT asset inventory as well as security and compliance posture across globally-distributed IT infrastructures as our solution offers a single platform for information technology, information security, application security, endpoint, developer security and cloud teams.

We were founded and incorporated in December 1999 with a vision of transforming the way organizations secure and protect their IT infrastructure and applications and initially launched our first cloud solution, Vulnerability Management (VM), in 2000. As VM gained acceptance, we introduced additional solutions to help customers manage increasing IT, security and compliance requirements. Today, the suite of solutions that we offer on our cloud platform and refer to as the Qualys Cloud Apps helps our customers protect a range of assets across on-premises, endpoints, cloud, containers, and mobile environments. These Cloud Apps address and include:

- *IT Security:* Vulnerability Management (VM), Vulnerability Management, Detection and Response (VMDR), Threat Protection (TP), Continuous Monitoring (CM), Patch Management (PM), Multi-Vector Endpoint Detection and Response (EDR), Indication of Compromise (IOC), Certificate Assessment (CRA);
- *Compliance:* Policy Compliance (PC), Security Configuration Assessment (SCA), PCI Compliance (PCI), File Integrity Monitoring (FIM), Security Assessment Questionnaire (SAQ), Out of-Band Configuration Assessment (OCA);
- *Web Application Security:* Web Application Scanning (WAS), Web Application Firewall (WAF);
- *Asset Management:* Global IT Asset Inventory (AI), CMDB Sync (SYN), Certificate Inventory (CRI); and,
- *Cloud/Container Security:* Cloud Inventory (CI), Cloud Security Assessment (CSA), Container Security (CS).

We provide our solutions through a software-as-a-service model, primarily with renewable annual subscriptions. These subscriptions require customers to pay a fee in order to access each of our cloud solutions. We generally invoice our customers for the entire subscription amount at the start of the subscription term, and the invoiced amounts are treated as deferred revenues and are recognized ratably over the term of each subscription. We continue to experience revenue growth from our existing customers as they renew and purchase additional subscriptions.

We market and sell our solutions to enterprises, government entities and small and medium-sized businesses across a broad range of industries, including education, financial services, government, healthcare, insurance, manufacturing, media, retail, technology and utilities. In 2020, 2019 and 2018, approximately 63%, 64% and 67%, respectively, of our revenues were derived from customers in the United States based on our customers billing address. We sell our solutions to enterprises and government entities primarily through our field sales force and to small and medium-sized businesses through our inside sales force. We generate a significant portion of sales through our channel partners, including managed service providers, value-added resellers and consulting firms in the United States and internationally.

Impacts of COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. As a result of COVID-19, we have modified certain aspects of our business, including restricting employee travel, requiring employees to work from home, and canceling certain events and meetings, among other modifications. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, partners, suppliers and stockholders. COVID-19 has not had and is not expected to have a significant impact on our business in 2021. However, while we have not incurred significant disruptions from the COVID-19 outbreak, we are unable to accurately predict the full impact that COVID-19 will have due to numerous uncertainties, including the duration of the outbreak, actions that may be taken by governmental authorities and the impact to the business of our customers and partners. We will continue to evaluate the nature and extent of the impact to our business, financial position, results of operations and cash flows.

Key Components of Results of Operations

Revenues

We derive revenues from the sale of subscriptions to our security and compliance solutions, which are delivered on our cloud platform. Subscriptions to our solutions allow customers to access our cloud-based security and compliance solutions through a unified, web-based interface. Customers generally enter into one-year renewable subscriptions. The subscription fee entitles the customer to an unlimited number of scans for a specified number of devices or web applications and, if requested by a customer as part of their subscription, a specified number of physical or virtual scanner appliances. Our physical and virtual scanner appliances are requested by certain customers as part of their subscriptions in order to scan IT infrastructures within their firewalls and do not function without, and are not sold separately from, subscriptions for our solutions. In some limited cases, we also provide certain computer equipment used to extend our Qualys Cloud Platform into our customers' private cloud environment. Customers are required to return physical scanner appliances and computer equipment if they do not renew their subscriptions.

We typically invoice our customers for the entire subscription amount at the start of the subscription term. Invoiced amounts are reflected on our consolidated balance sheets as accounts receivable or as cash when collected, and as deferred revenues until earned and recognized ratably over the subscription period. Accordingly, deferred revenues represent the amount billed to customers that has not yet been earned or recognized as revenues, pursuant to subscriptions entered into in current and prior periods.

Cost of Revenues

Cost of revenues consists primarily of personnel expenses, comprised of salaries, benefits, amortization of capitalized internal-use software, performance-based compensation and stock-based compensation, for employees who operate our data centers and provide support services to our customers. Other expenses include depreciation of data center equipment and physical scanner appliances and computer hardware provided to certain customers as part of their subscriptions, expenses related to the use of third-party data centers, amortization of software and license fees, amortization of intangibles related to acquisitions, maintenance support, fees paid to contractors who supplement or support our operations center personnel and overhead allocations. We expect to continue to make capital investments to expand and support our data center operations, which will increase the cost of revenues in absolute dollars.

Operating Expenses

Research and Development

Research and development expenses consist primarily of personnel expenses, comprised of salaries, benefits, performance-based compensation and stock-based compensation, for our research and development teams. Other expenses include third-party contractor fees, software and license fees, amortization of intangibles related to acquisitions and overhead allocations.

Sales and Marketing

Sales and marketing expenses consist primarily of personnel expenses, comprised of salaries, benefits, sales commissions, performance-based compensation and stock-based compensation for our worldwide sales and marketing teams. Other expenses include marketing and promotional events, lead-generation marketing programs, public relations, travel, software licenses and overhead allocations. Sales commissions related to new business and upsells are capitalized as an asset. We amortize the capitalized commission cost as a selling expense on a straight-line basis over a period of five years. We expense sales commissions related to contract renewals as incurred. Our new sales personnel are typically not immediately productive, and the resulting increase in sales and marketing expenses we incur when we add new personnel may not result in increased revenues if these new sales personnel fail to become productive. The timing of our hiring of sales personnel, or the participation in new marketing events or programs, and the rate at which these generate incremental revenues, may affect our future operating results. We expect to continue to significantly invest in additional sales personnel worldwide and also in more marketing programs to support new solutions on our platform, which will increase sales and marketing expenses in absolute dollars.

General and Administrative

General and administrative expenses consist primarily of personnel expenses, comprised of salaries, benefits, performance-based compensation and stock-based compensation for our executive, finance and accounting, IT, legal and human resources teams, as well as professional services, fees, software licenses and overhead allocations. We expect that general and administrative expenses will increase in absolute dollars, as we continue to add personnel and incur professional services to support our growth and compliance with legal requirements.

Other Income (Expense), Net

Our other income (expense), net consists primarily of interest and investment income from our short-term and long-term marketable securities; foreign exchange gains and losses, the majority of which result from fluctuations between the U.S. Dollar and the Euro, British Pound ("GBP") and Indian Rupee ("INR"); and gains and losses from disposal of property and equipment.

Provision for Income Taxes

We are subject to federal, state and foreign income taxes for jurisdictions in which we operate, and we use estimates in determining our provision for these income taxes and deferred tax assets. Earnings from our non-U.S. activities are subject to income taxes in the local countries at rates which were generally similar to the U.S. statutory tax rate.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the tax impact of timing differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the statutory rate change is enacted into law.

We assess the likelihood that deferred tax assets will be realized, and we recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be recognized. This assessment requires judgment as to the likelihood and amounts of future taxable income.

Results of Operations

The following table sets forth selected consolidated statements of operations data for each of the periods presented as a percentage of revenues:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Revenues	100%	100%
Cost of revenues	22	22
Gross profit	78	78
Operating expenses:		
Research and development	20	21
Sales and marketing	19	22
General and administrative	12	13
Total operating expenses	51	56
Income from operations	27	22
Other income (expense), net	1	3
Income before income taxes	28	25
Provision for income taxes	3	3
Net income	25%	22%

Comparison of Years Ended December 31, 2020 and 2019

Revenues

	Year Ended December 31,		Change	
	2020	2019	$	%
	(in thousands, except percentages)			
Revenues	$362,963	$321,607	$41,356	13%

Revenues increased $41.4 million in 2020 compared to 2019 due to an increase in the subscriptions from existing customers and new customer subscriptions entered into in 2020. Revenues from customers existing at or prior to December 31, 2019 grew by $31.0 million to $352.6 million during 2020. Subscriptions from new customers added in 2020 contributed $10.4 million to the increase in revenues. Revenues from customers in the United States increased by $23.9 million, or 12%, from $206.6 million in 2019 to $230.4 million in 2020 and revenues from customers in foreign countries increased by $17.5 million, or 15%, from $115.1 million in 2019 to $132.5 million in 2020. We expect revenue growth from existing and new customers to continue. The growth in revenues reflects the continued demand for our solutions.

Cost of Revenues

	Year Ended December 31,		Change	
	2020	2019	$	%
	(in thousands, except percentages)			
Cost of revenues	$79,226	$69,517	$9,709	14%
Percentage of revenues	22%	22%		
Gross profit percentage	78%	78%		

Cost of revenues increased $9.7 million in 2020 compared to 2019. The increase was primarily due to an increase in personnel costs of $3.5 million driven by the headcount increase to support the growth of our business, an increase in licenses and software services of $1.9 million, an increase in data center costs of $1.8 million to meet growing demand, an increase in equipment repairs and maintenance costs of $1.2 million and a $1.3 million increase in depreciation of property and plant and allocation of increased leasing expenses to the cost of revenue related to our new office in India and data centers.

Research and Development Expenses

	Year Ended December 31,		Change	
	2020	2019	$	%
	(in thousands, except percentages)			
Research and development	$72,548	$68,239	$4,309	6%
Percentage of revenues	20%	21%		

Research and development expenses increased $4.3 million in 2020 compared to 2019, primarily due to an increase in personnel expense of $3.2 million driven by additional employees hired to support the growth of our business, a $2.0 million increase in allocation of overhead costs to the research and development department mainly caused by an increase in leasing expenses for our new office in India, an increase in depreciation and amortization expense of $0.8 million and an increase in licenses and software services of $0.4 million. These increases were partially offset by a decrease in acquisition-related expense of $2.1 million.

Sales and Marketing Expenses

	Year Ended December 31,		Change	
	2020	2019	$	%
	(in thousands, except percentages)			
Sales and marketing	$67,965	$70,833	$(2,868)	(4)%
Percentage of revenues	19%	22%		

Sales and marketing expenses decreased $2.9 million in 2020 compared to 2019, primarily due to decreases in trade show related costs of $4.5 million, travel related expenses of $3.0 million and other marketing related expenses of $0.8 million driven by the COVID-19 pandemic, partially offset by an increase in personnel costs of $4.7 million due to additional employees hired to support the growth of our business and a $0.7 million increase in commission expenses.

General and Administrative Expenses

	Year Ended December 31,		Change	
	2020	2019	$	%
	(in thousands, except percentages)			
General and administrative	$46,570	$40,765	$5,805	14%
Percentage of revenues	13%	13%		

General and administrative expenses increased $5.8 million in 2020 compared to 2019, primarily due to an increase in legal fees of $3.4 million due to legal and compliance matters and a $1.1 million increase in personnel costs due to additional employees hired to support the growth of our business and an increase in performance-based stock compensation of $1.8 million as a result of the modification of certain awards in June 2020 and a higher forecasted performance level, partially offset by a decrease in office supply expense of $0.5 million due to working from home during the COVID-19 pandemic.

Total Other Income (Expense), Net

	Year Ended December 31,		Change	
	2020	2019	$	%
	(in thousands, except percentages)			
Total other income (expense), net	$5,383	$7,730	$(2,347)	(30)%
Percentage of revenues	1%	2%		

Total other income (expense), net, decreased $2.3 million in 2020 compared to 2019, primarily due to a decrease in interest income driven by lower yield.

Provision for (benefit from) Income Taxes

	Year Ended December 31,		Change	
	2020	2019	$	%
	(in thousands, except percentages)			
Provision for income taxes	$10,465	$10,647	$(182)	(2)%
Percentage of revenues	3%	3%		

Our income tax expense decreased in 2020 compared to 2019 by $0.2 million primarily due to an increase in income tax benefit from excess stock-based compensation deductions offset by the increase in income before income taxes.

Key Non-GAAP Metric

In addition to measures of financial performance presented in our consolidated financial statements, we monitor the non-GAAP key metric set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess operational efficiencies.

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Adjusted EBITDA	$169,534	$138,346

Adjusted EBITDA

We monitor Adjusted EBITDA, a non-GAAP financial measure, to analyze our financial results and believe that it is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance. We believe that Adjusted EBITDA helps illustrate underlying trends in our business that could otherwise be masked by the effect of the income or expenses that we exclude in Adjusted EBITDA. Furthermore, we use this measure to establish budgets and operational goals for managing our business and evaluating our performance. We also believe that Adjusted EBITDA provides an additional tool for investors to use in comparing our recurring core business operating results over multiple periods with other companies in our industry.

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. We calculate Adjusted EBITDA as net income before (1) other (income) expense, net, which includes interest income, interest expense and other income and expense, (2) provision for (benefit from) income taxes, (3) depreciation of property and equipment, (4) amortization of intangible assets, (5) stock-based compensation and (6) non-recurring expenses that do not reflect ongoing costs of operating the business.

Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation from or as a substitute for the measures presented in accordance with U.S. GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect certain cash and non-cash charges that are recurring;
- Adjusted EBITDA does not reflect income tax payments that reduce cash available to us;
- Adjusted EBITDA excludes depreciation of property and equipment and amortization of intangible assets, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA differently or not at all, which reduces its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should be considered alongside other financial performance measures, including revenues, net income, cash flows from operating activities and our financial results presented in accordance with U.S. GAAP.

The following unaudited table presents the reconciliation of net income to Adjusted EBITDA for the years ended December 31, 2020 and 2019.

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Net income	$ 91,572	$ 69,336
Depreciation and amortization of property and equipment	26,556	25,121
Amortization of intangible assets	6,289	6,080
Provision for income taxes	10,465	10,647
Stock-based compensation	40,035	34,892
Other income (expense), net	(5,383)	(7,730)
Adjusted EBITDA	$169,534	$138,346
Percentage of revenues	47%	43%

Liquidity and Capital Resources

At December 31, 2020, our principal source of liquidity was cash, cash equivalents and marketable securities of $454.5 million, including $30.7 million of cash held outside of the United States. We do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. However, if we repatriate these funds, we could be subject to foreign withholding taxes.

We generated positive cash flows from operations during the years ended December 31, 2020 and 2019. We believe our existing cash, cash equivalents, marketable securities and cash from operations will be sufficient to fund our operations for at least the next twelve months. In 2021, we expect capital expenditures to be in a range of $30.0 million to $35.0 million.

Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing, type and extent of our spending on research and development efforts, international expansion and investment in data centers. We may also seek to invest in or acquire complementary businesses or technologies. While the COVID-19 pandemic has not had a material adverse financial impact on our operations to date, the future impact of the pandemic cannot be predicted with certainty and may increase our costs of capital and otherwise adversely affect our business, result of operations, financial condition and liquidity.

Cash Flows

The following summary of cash flows for the periods indicated has been derived from our consolidated financial statements included elsewhere in this report:

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Cash provided by operating activities	$ 180,086	$160,607
Cash used in investing activities	(80,932)	(35,029)
Cash used in financing activities	(112,581)	(79,045)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ (13,427)	$ 46,533

Cash Flows from Operating Activities

In 2020, cash provided by operating activities of $180.1 million was primarily due to $91.6 million of net income, as adjusted for non-cash items including stock-based compensation expense of $40.0 million, depreciation and amortization expense of $32.8 million, deferred income tax expense of $3.5 million, an increase in accrued liabilities of $5.1 million due to higher compensation related accrual as well as timing of payments and an increase in deferred revenues of $30.9 million due to our continued growth in sales. These increases were partially offset by a $22.6 million increase in accounts receivable due to higher billings.

In 2019, cash provided by operating activities of $160.6 million was primarily due to $69.3 million of net income, as adjusted by increases in non-cash items including stock-based compensation expense of $34.9 million, depreciation and amortization expense of $31.2 million, an increase in deferred income taxes of $7.1 million; and an increase in deferred revenues of $28.1 million due to our continued growth in sales. These increases were partially offset by $6.0 million of increased prepayments primarily for computer hardware maintenance fees; a $2.5 million increase in accounts receivable due to higher billings; and a $1.1 million decrease in accounts payable mainly due to timing of payments.

Cash Flows from Investing Activities

In 2020, cash used in investing activities of $80.9 million was primarily attributable to $49.8 million of cash used for purchases of marketable securities, net of sales and maturities, and $29.6 million of cash used for capital expenditures mainly related to computer equipment to support our growth and development, net of proceeds received from disposal of certain assets. Additionally, we paid $1.5 million in connection with our acquisition of the assets of Spell Security and payment of deferred consideration to Adya.

In 2019, cash used in investing activities of $35.0 million was primarily attributable to $27.6 million of cash used for capital expenditures, $4.1 million in aggregate payments made in connection with our acquisitions of Adya and holdback payments for our acquisitions in the prior years, net purchases of investments of $2.8 million, and $0.6 million for our purchase of an investment in a privately-held company. The $27.6 million increase in capital expenditures included leasehold improvements for a new office in India and computer hardware purchases to support our growth.

Cash Flows from Financing Activities

In 2020, cash used in financing activities of $112.6 million was primarily attributable to $126.7 million of common stock repurchases and $20.2 million of payments related to net share settlement of equity awards, offset by $34.5 million of proceeds from the exercise of stock options.

In 2019, cash used in financing activities of $79.0 million was primarily attributable to $86.4 million of common stock repurchases and $15.7 million of payments related to net share settlement of equity awards, offset by $24.8 million of proceeds from the exercise of stock options.

Contractual Obligations

Our principal commitments consist of obligations under our outstanding leases for office space and third-party data centers. The following table summarizes our contractual cash obligations at December 31, 2020 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

		Payment Due by Period			
Contractual Obligations:	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
		(in thousands)			
Operating lease obligations	$ 65,533	$14,186	$24,613	16,417	$10,317
Purchase order obligations	43,236	20,131	13,452	9,653	—
Total	$108,769	$34,317	$38,065	26,070	$10,317

Operating lease obligations primarily represent our obligations to make payments under the lease agreements for our facilities and data centers. During the year ended December 31, 2020, total payments for our operating lease obligations was $13.4 million.

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form10-K for a discussion of recent accounting pronouncements.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in the notes to our consolidated financial statements, the following accounting policies involve the greatest degree of judgment and complexity and have the greatest potential impact on our consolidated financial statements. A critical accounting policy is one that is material to the presentation of our consolidated financial statements and requires us to make difficult, subjective or complex judgments for uncertain matters that could have a material effect on our financial condition and results of operations. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations. For further information on all of our significant accounting policies, see Note 1—The Company and Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Revenue Recognition

We derive revenues from subscriptions that require customers to pay a fee in order to access our cloud solutions. Contract period with customers generally ranges from less than a year to five years. The subscription fee entitles the customer to an unlimited number of scans for a specified number of networked devices or web applications and, if requested by a customer as part of their subscription, a specified number of physical or virtual scanner appliances. Our physical and virtual scanner appliances are requested by certain customers as part of their subscriptions in order to scan IT infrastructures within their firewalls and do not function without, and are not sold separately from, subscriptions for our solutions. In some limited cases, we also provide certain computer equipment used to extend our Qualys Cloud Platform into our customers' private cloud environment. Customers are required to return physical scanner appliances and computer equipment if they do not renew their subscriptions.

In accordance with ASC 606 Revenue from Contracts with Customers ("ASC 606"), revenue is recognized when control of the subscription service is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those services. Our subscription services are typically satisfied ratably over the subscription term as our cloud-based offerings are delivered to customers electronically and over time. In addition, we recognize revenues for certain limited scan arrangements on an as-used basis. We recognize revenue related to professional services based on time and materials or completion of milestones stated in the contracts. When physical equipment are provided to the customers as part of the subscription service contract, we apply the practical expedient allowed under ASC 842 Leases to combine lease and nonlease components as a combined component to be accounted for under ASC 606, as we determined that the software subscription is the predominant component of the combined components. Therefore, we recognize revenue for the physical equipment ratably over the related subscription period.

Incremental direct costs of obtaining a contract, which consist of sales commissions primarily for new business and upsells, are deferred and amortized over the estimated life of the customer relationship if renewals are expected and the renewal commission is not commensurate with the initial commission. We elected the practical expedient to expense commissions on renewals where the specific anticipated contract term amortization period is one year or less. We amortize the capitalized commission cost as a selling expense on a straight-line basis over a period of five years.

Income Taxes

We are subject to income taxes in the United States as well as other tax jurisdictions in which we conduct business. Earnings from our non-U.S. activities are subject to local income tax and may also be subject to U.S. income tax.

Income tax expense or benefit is recognized for the amount of taxes payable or refundable for the current year, and for deferred tax assets and liabilities for the tax consequences of events that have been recognized in an entity's financial statements or tax returns. We must make significant assumptions, judgments and estimates to determine our current provision for (benefit from) income taxes, our deferred tax assets and liabilities, and any valuation allowance to be recorded against our deferred tax assets. Our judgments, assumptions and estimates relating to the current provision for (benefit from) income taxes include the geographic mix and amount of income (loss), our interpretation of current tax laws, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Our judgments also include anticipating the tax positions we will record in the financial statements before actually preparing and filing the tax returns. Our estimates and assumptions may differ from the actual results as reflected in our income tax returns and we record the required adjustments when they are identified or resolved. Changes in our business, tax laws or our interpretation of tax laws, and developments in current and future tax audits, could significantly impact the amounts provided for income taxes in our results of operations, financial position, or cash flows.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to tax benefit carry-forwards and to differences between the financial statement amounts of assets and liabilities and their respective tax basis. We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. To make this assessment, we take into account predictions of the amount and category of taxable income from available positive and negative evidence about these possible sources of taxable income. The weight given to the potential effect of negative and positive evidence is commensurate with the extent to which the strength of the evidence can be objectively verified.

Based on the analysis of positive and negative factors noted above, we believe it is more likely than not that our California deferred tax assets will not be realized because the income attributed to California is not expected to be sufficient to recognize these deferred tax assets. Accordingly, we continue to record a valuation allowance as of December 31, 2020 for our California deferred tax assets. If, in the future, we determine that these deferred tax assets are more likely than not to be realized, a release of all or part, of the related valuation allowance could result in an income tax benefit in the period such determination is made. We do not have a valuation allowance against U.S. federal and certain other state deferred tax assets.

We recognize an income tax expense or benefit with respect to uncertain tax positions in our financial statements that we judge is more likely than not to be sustained solely on its technical merits in a tax audit, including resolution of any related appeals or litigation processes. To make this judgment, we must interpret complex and sometimes ambiguous tax laws, regulations and administrative practices. If an income tax position meets the more likely than not recognition threshold, then we must measure the amount of the tax benefit to be recognized by determining the largest amount of tax benefit that has a greater than a 50% likelihood of being realized upon effective settlement with a taxing authority that has full knowledge of all of the relevant facts. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible settlement outcomes. To determine if a tax position is effectively settled after a tax examination has been completed, we must also estimate the likelihood that another taxing authority could review the respective tax position. We must also determine when it is reasonably possible that the amount of unrecognized tax benefits will significantly increase or decrease in the 12 months after each fiscal year-end. These judgments are difficult because a taxing authority may change its behavior as a result of our disclosures in our financial statements. We must reevaluate our income tax positions on a quarterly basis to consider factors such as changes in facts or circumstances, changes in tax laws, effectively settled issues under audit, the potential for interest and penalties, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision.

Stock-Based Compensation

We recognize the fair value of our employee stock options and restricted stock units over the requisite service period for those awards ultimately expected to vest. The fair value of each option is estimated on date of grant using the Black-Scholes-Merton option pricing model and the fair value of each restricted stock unit is based on the fair value of our stock on the date of grant. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates. For performance-based non-qualified stock options and restricted stock units, we recognize compensation costs when it is probable that the performance conditions will be met. We assess these conditions on a quarterly basis.

Determining the appropriate fair value model and calculating the fair value of employee stock options requires the use of highly subjective assumptions, including the expected life of the stock option and stock price volatility. The assumptions used in calculating the fair value of employee stock options represent management's best estimates, but the estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Fair Value Measurement

Fair value is defined as the price 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. For certain of our financial instruments, including cash and certain cash equivalents, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances.

We measure and report certain cash equivalents, marketable securities and derivative foreign currency forward contracts at fair value in accordance with the provisions of the authoritative accounting guidance that addresses fair value measurements. This guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2—Valuations based on other than quoted prices in active markets for identical assets and liabilities, including quoted prices for identical assets or liabilities in less active or inactive markets, quoted prices for similar assets or liabilities in active markets, or inputs other than quoted prices that are observable for substantially the full term of the assets or liabilities.

Level 3—Valuations based on inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

For further details, see Part II, Item 8 of this Annual Report on Form10-K Note 2, Fair Value of Financial Instruments.

Leases

We lease offices, our data center facilities and certain computer equipment under non-cancelable operating leases and finance leases. On January 1, 2019, we adopted ASC 842 Leases using the current period adjustment method with an effective date of January 1, 2019. For both operating and finance leases, we recognize a right-of-use asset, which represents our right to use the underlying asset for the lease term, and a lease liability, which represents the present value of our obligation to make payments arising over the lease term. Many of our leases include rental escalation clauses, renewal options and/or termination options that are factored into our determination of lease payments and lease terms when appropriate. The present value of the lease payments is calculated using the incremental borrowing rate of the underlying leases determined at lease commencement. As most of our leases do not provide a readily determinable implicit rate, we determine an incremental borrowing rate using a portfolio approach based on the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term as the leases.

Where we are the lessee, we elect to account for non-lease components associated with our leases (e.g., common area maintenance costs) and lease components separately for substantially all of our asset classes, except for data centers, for which we elected to combine lease and non-lease components. For leases with a term of one year or less, we have elected not to record the right-of-use asset or liability.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We have domestic and international operations and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and inflation risks, as well as risks relating to changes in the general economic conditions in the countries where we conduct business. To reduce certain of these risks, we monitor the financial condition of our large customers and limit credit exposure by collecting subscription fees in advance.

Foreign Currency Risk

Our results of operations and cash flows have been and will continue to be subject to fluctuations because of changes in foreign currency exchange rates, particularly changes in exchange rates between the U.S. dollar and the Euro, GBP and INR, the currencies of countries where we currently have our most significant international operations. Our expenses in international locations are generally denominated in the currencies of the countries in which our operations are located.

The cash flow effects of our derivative contracts for the year ended December 31, 2020 and 2019 were included within net cash provided by operating activities on our consolidated statements of cash flows. At December 31, 2020, we had 39 open designated cash flow hedge forward contracts with notional amounts of €25.9 million, £8.7 million and Rs. 1,933.5 million. During the fiscal year ended December 31, 2020, we recorded $2.0 million of unrealized foreign exchange losses (net of realized gains and losses and tax) related to the designated cash flow hedge contracts in AOCI. At December 31, 2019, we had 26 open cash flow hedge contracts with notional amount of €24.2 million and £9.7 million. We recorded $0.4 million of unrealized foreign exchange gains (net of realized gains and losses and tax) related to the designated cash flow hedge contracts in AOCI.

For further details, see Part II, Item 8 of this Annual Report on Form10-K Note 2, Fair Value of Financial Instruments.

Interest Rate Sensitivity

We have $454.5 million in cash, cash equivalents and marketable securities at December 31, 2020. Cash and cash equivalents include cash held in banks, highly liquid money market funds and commercial paper. Marketable securities consist of fixed-income U.S. and foreign government agency securities, corporate bonds, asset-backed securities and commercial paper. We determine the appropriate balance sheet classification of our marketable securities at the time of purchase and reevaluate such designation at each balance sheet date. We classify our marketable securities as either short-term or long-term based on each instrument’s underlying contractual maturity date.

The primary objectives of our investment activities are the preservation of principal and support of our liquidity requirements. We do not invest for trading or speculative purposes. Our marketable securities are subject to market risk due to changes in interest rates, which may affect the interest income we earn and the fair market value. We do not believe that a 10% increase or decrease in interest rates would have a material impact on our operating results or cash flows.

Item 8. Financial Statements and Supplementary Data

Qualys, Inc.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Qualys, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Qualys, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in the 2013 *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 22, 2021 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the 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 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 financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the 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 supporting the amounts and disclosures in the 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Income taxes

As described further in Note 12 to the financial statements, the Company records income taxes using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. We identified the tax effects of temporary and permanent differences related to stock-based compensation as a critical audit matter.

The principal considerations for our determination that the tax effects of temporary and permanent differences are a critical audit matter are that auditing the application of executive compensation rules requires significant technical expertise, the Company is generating excess tax deductions as a result of stock-based compensation and the stock-based compensation calculation is complex due to the required recordkeeping. Our audit procedures related to the tax effects of temporary and permanent differences related to stock-based compensation included the following, among others.

- Involved an employee compensation specialist to assess the application of executive compensation rules.
- Obtained management's permanent and temporary provision calculation and tied out inputs to supporting equity documentation.
- Tested the completeness and accuracy of the calculation of permanent and temporary differences.
- Determined that the ending gross temporary difference agreed to the supporting equity documentation.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2005.

San Jose, California
February 22, 2021

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Qualys, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Qualys, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in the 2013 *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the 2013 *Internal Control — Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended December 31, 2020, and our report dated February 22, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting ("Management's Report"). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting 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 the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the 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 risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

San Jose, California
February 22, 2021

Qualys, Inc.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31,	
	2020	**2019**
Assets		
Current assets:		
Cash and cash equivalents	74,132	$ 87,559
Short-term marketable securities	281,892	211,331
Accounts receivable, net of allowance of $725 and $585 at December 31, 2020 and 2019, respectively	100,179	78,034
Prepaid expenses and other current assets	19,142	18,692
Total current assets	475,345	395,616
Long-term marketable securities	98,458	119,508
Property and equipment, net	64,850	60,579
Operating leases—right of use asset	44,838	40,551
Deferred tax assets, net	15,811	18,830
Intangible assets, net	12,006	16,795
Goodwill	7,447	7,447
Restricted cash	1,200	1,200
Other noncurrent assets	16,864	15,082
Total assets	736,819	$675,608
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	731	$ 848
Accrued liabilities	29,833	22,784
Deferred revenues, current	213,494	192,172
Operating lease liabilities, current	11,672	7,663
Total current liabilities	255,730	223,467
Deferred revenues, noncurrent	30,540	20,935
Operating lease liabilities, noncurrent	45,700	44,015
Other noncurrent liabilities	367	388
Total liabilities	332,337	288,805
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock: $0.001 par value; 20,000,000 shares authorized, no shares issued and outstanding at December 31, 2020 and 2019	—	—
Common stock, $0.001 par value; 1,000,000,000 shares authorized, 39,252,665 and 39,146,272 shares issued and outstanding at December 31, 2020 and 2019, respectively	39	39
Additional paid-in capital	401,359	362,408
Accumulated other comprehensive income (loss)	(484)	1,162
Retained earnings	3,568	23,194
Total stockholders' equity	404,482	386,803
Total liabilities and stockholders' equity	736,819	$675,608

The accompanying notes are an integral part of these Consolidated Financial Statements.

Qualys, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31, 2020	2019	2018
Revenues	$362,963	$321,607	$278,889
Cost of revenues	79,226	69,517	66,185
Gross profit	283,737	252,090	212,704
Operating expenses:			
Research and development	72,548	68,239	53,255
Sales and marketing	67,965	70,833	70,039
General and administrative	46,570	40,765	39,049
Total operating expenses	187,083	179,837	162,343
Income from operations	96,654	72,253	50,361
Other income (expense), net:			
Interest expense	(9)	(106)	(172)
Interest income	5,385	8,443	6,080
Other income (expense), net	7	(607)	(801)
Total other income (expense), net	5,383	7,730	5,107
Income before income taxes	102,037	79,983	55,468
Provision for (benefit from) income taxes	10,465	10,647	(1,836)
Net income	$ 91,572	$ 69,336	$ 57,304
Net income per share:			
Basic	$ 2.34	$ 1.77	$ 1.47
Diluted	$ 2.24	$ 1.68	$ 1.37
Weighted average shares used in computing net income per share:			
Basic	39,167	39,075	38,876
Diluted	40,823	41,345	41,897

The accompanying notes are an integral part of these Consolidated Financial Statements.

Qualys, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Net income	$91,572	$69,336	$57,304
Other comprehensive income (loss):			
Available-for-sale debt securities:			
Change in net unrealized gain (loss), net of tax effect of ($128), ($243) and $0 in fiscal years 2020, 2019 and 2018, respectively	421	1,367	(261)
Reclassification adjustment for net (gain) loss realized and included in net income, net of tax effect of $6, $0 and $0 in fiscal years 2020, 2019 and 2018	(19)	—	289
Total change in unrealized gain on marketable securities, net of tax	402	1,367	28
Cash flow hedges:			
Change in net unrealized gain (loss), net of tax effect of $486, ($136) and $0 in fiscal years 2020, 2019 and 2018, respectively	(1,613)	515	(40)
Reclassification adjustment for net gain realized and included in net income, net of tax effect of $129, $35 and $0 in fiscal years 2020, 2019 and 2018, respectively	(435)	(134)	—
Total change in unrealized gain (loss) on cash flow hedges, net of tax	(2,048)	381	(40)
Other comprehensive income (loss), net of tax	(1,646)	1,748	(12)
Comprehensive income	$89,926	$71,084	$57,292

The accompanying notes are an integral part of these Consolidated Financial Statements.

Qualys, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2020	2019	2018
Cash flows from operating activities:			
Net income	$ 91,572	$ 69,336	$ 57,304
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	32,845	31,201	28,904
Bad debt expense	486	247	86
Loss on disposal of property and equipment	106	202	9
Stock-based compensation	40,035	34,892	30,090
Amortization of premiums and (accretion of discounts) on marketable securities	826	(1,597)	(1,136)
Deferred income taxes	3,512	7,095	(2,521)
Changes in operating assets and liabilities:			
Accounts receivable	(22,631)	(2,456)	(11,467)
Prepaid expenses and other assets	(2,329)	(6,012)	(4,970)
Accounts payable	(389)	(1,076)	3,515
Accrued liabilities	5,126	715	1,426
Deferred revenues	30,927	28,060	24,725
Other noncurrent liabilities	—	—	(501)
Net cash provided by operating activities	180,086	160,607	125,464
Cash flows from investing activities:			
Purchases of marketable securities	(391,693)	(331,131)	(339,862)
Sales and maturities of marketable securities	341,879	328,350	285,224
Purchases of property and equipment	(30,037)	(27,573)	(22,775)
Proceeds from disposal of property and equipment	419	—	—
Acquisition of businesses, net of cash acquired, and purchases of intangible assets	(1,500)	(4,050)	(13,633)
Purchase of privately-held investment	—	(625)	(2,500)
Net cash used in investing activities	(80,932)	(35,029)	(93,546)
Cash flows from financing activities:			
Repurchase of common stock	(126,729)	(86,424)	(85,040)
Proceeds from exercise of stock options	34,461	24,831	24,053
Payments for taxes related to net share settlement of equity awards	(20,199)	(15,743)	(14,879)
Principal payments under finance lease obligations	(114)	(1,709)	(1,617)
Net cash used in financing activities	(112,581)	(79,045)	(77,483)
Net increase (decrease) in cash and cash equivalents	(13,427)	46,533	(45,565)
Cash, cash equivalents and restricted cash at beginning of period	88,759	42,226	87,791
Cash, cash equivalents and restricted cash at end of period	$ 75,332	$ 88,759	$ 42,226
Supplemental disclosures of cash flow information			
Cash paid for interest expense	$ 9	$ 107	$ 168
Cash paid for income taxes, net of refunds	8,058	3,031	2,693
Non-cash investing and financing activities			
Business acquisitions recorded in accrued liabilities and deferred tax liability	150	150	4,676
Purchases of property and equipment recorded in accounts payable and accrued liabilities	1,054	235	4,190

The accompanying notes are an integral part of these Consolidated Financial Statements.

Qualys, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2017	38,598,117	$ 39	$ 304,155	$ (574)	$ 39,924	$ 343,544
Adjustment to opening retained earnings on adoption of ASC 606	—	—	—	—	2,711	2,711
Net income	—	—	—	—	57,304	57,304
Other comprehensive loss, net of tax	—	—	—	(12)	—	(12)
Issuance of common stock upon exercise of stock options	1,183,235	1	24,052	—	—	24,053
Repurchase of common stock	(1,088,899)	(1)	(13,064)	—	(71,975)	(85,040)
Issuance of common stock upon vesting of restricted stock units	525,375	—	—	—	—	—
Taxes related to net share settlement of equity awards	(202,794)	—	(14,879)	—	—	(14,879)
Stock-based compensation	—	—	30,308	—	—	30,308
Balances at December 31, 2018	39,015,034	39	330,572	(586)	27,964	357,989
Net income	—	—	—	—	69,336	69,336
Other comprehensive income, net of tax	—	—	—	1,748	—	1,748
Issuance of common stock upon exercise of stock options	901,290	1	24,830	—	—	24,831
Repurchase of common stock	(1,026,455)	(1)	(12,317)	—	(74,106)	(86,424)
Issuance of common stock upon vesting of restricted stock units	438,892	—	—	—	—	—
Taxes related to net share settlement of equity awards	(182,489)	—	(15,743)	—	—	(15,743)
Stock-based compensation	—	—	35,066	—	—	35,066
Balances at December 31, 2019	39,146,272	39	362,408	1,162	23,194	386,803
Net income	—	—	—	—	91,572	91,572
Other comprehensive loss, net of tax	—	—	—	(1,646)	—	(1,646)
Issuance of common stock upon exercise of stock options	1,129,845	1	34,460	—	—	34,461
Repurchase of common stock	(1,292,750)	(1)	(15,530)	—	(111,198)	(126,729)
Issuance of common stock upon vesting of restricted stock units	475,853	—	—	—	—	—
Taxes related to net share settlement of equity awards	(206,555)	—	(20,199)	—	—	(20,199)
Stock-based compensation	—	—	40,220	—	—	40,220
Balances at December 31, 2020	39,252,665	$ 39	$ 401,359	$ (484)	$ 3,568	$ 404,482

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTE 1. The Company and Summary of Significant Accounting Policies

Description of Business

Qualys, Inc. (the “Company”, “we”, “us”, “our”) was incorporated in the state of Delaware on December 30, 1999. The Company is headquartered in Foster City, California and has wholly-owned subsidiaries throughout the world. The Company is a pioneer and leading provider of cloud-based IT, security and compliance solutions that enable organizations to identify security risks to their IT infrastructures, help protect their IT systems and applications from ever-evolving cyber-attacks and achieve compliance with internal policies and external regulations. The Company’s cloud solutions address the growing security and compliance complexities and risks that are amplified by the dissolving boundaries between internal and external IT infrastructures and web environments, the rapid adoption of cloud computing and the proliferation of geographically dispersed IT assets. Organizations can use the Company’s integrated suite of solutions delivered on its Qualys Cloud Platform to cost-effectively obtain a unified view of their security and compliance posture across globally-distributed IT infrastructures.

Basis of Presentation

The accompanying consolidated financial statements and footnotes have been prepared in accordance with U.S. GAAP as well as the instructions to Form 10-K and the rules and regulations of the SEC. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company’s consolidated financial position, results of operations and cash flows for the periods presented. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the current year presentation. The reclassifications did not have material effects on the prior year’s consolidated financial statements.

Risks and Uncertainties

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. As a result of COVID-19, the Company has modified certain aspects of its business, including restricting employee travel, requiring employees to work from home, and canceling certain events and meetings, among other modifications. The Company will continue to actively monitor the situation and may take further actions that alter its business operations as may be required by federal, state or local authorities or that the Company determines are in the best interests of its employees, customers, partners, suppliers and stockholders. COVID-19 has not had and is not expected to have a significant impact on the Company’s business in 2021. However, while the Company has not incurred significant disruptions from the COVID-19 outbreak, the Company is unable to accurately predict the full impact that COVID-19 will have due to numerous uncertainties, including the duration of the outbreak, actions that may be taken by governmental authorities and the impact to the business of its customers and partners. The Company will continue to evaluate the nature and extent of the impact to its business, financial position, results of operations and cash flows.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the consolidated financial statements and the reported results of operations during the reporting period. The Company's management regularly assesses these estimates, which primarily affect revenue recognition, the valuation of accounts receivable, goodwill and intangible assets, capitalization of internally developed software, stock-based compensation and the provision for income taxes. Actual results could differ from those estimates and such differences may be material to the accompanying consolidated financial statements.

Concentration of Credit Risk

The Company invests its cash and cash equivalents with major financial institutions. Cash balances with any one institution at times may be in excess of federally insured limits. Cash equivalents are invested in high-quality investment grade financial instruments and are diversified. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Credit risk with respect to accounts receivable is dispersed due to the large number of customers. Collateral is not required for accounts receivable. As of December 31, 2020 and 2019, no customer or channel partner accounted for more than 10% of the Company's revenues and accounts receivable balance.

Cash, Cash Equivalents, Restricted cash and Short-Term and Long-Term Marketable Securities

Cash and cash equivalents include cash held in banks, highly liquid money market funds and commercial paper, all with original maturities of three months or less when acquired. The Company's short-term and long-term marketable securities consist of fixed-income U.S. and foreign government agency securities, corporate bonds, asset-backed securities and commercial paper. Management determines the appropriate classification of the Company's investments at the time of purchase and reevaluates such designation at each balance sheet date. The Company classifies its marketable securities as either short-term or long-term based on each instrument's underlying remaining contractual maturity date.

As of both December 31, 2020 and 2019, the Company has a restricted cash balance of $1.2 million in the form of a letter of credit issued to the landlord of the Company's California headquarter office lease as security deposit.

Cash equivalents are stated at cost, which approximates fair market value. Short-term and long-term marketable securities are classified as available-for-sale debt securities (AFS debt securities) and are carried at fair value. Unrealized gains and losses in fair value of the AFS debt securities are reported in other comprehensive income (loss). When the AFS debt securities are sold, cost is based on the specific identification method, and the realized gains and losses are included in other income (expense), net in the consolidated statements of operations. AFS debt securities are reviewed quarterly for impairment. An investment is considered impaired when its fair value is below its amortized cost. Declines in fair value from amortized cost for AFS debt securities that the company intends to sell or will more likely than not be required to sell before the expected recovery of the amortized cost basis are charged to other income (expense), net in the period in which the loss occurs. Otherwise, the credit loss component of the impairment is recorded as allowance for credit losses with an offsetting entry charged to other income (expense), net, while the remaining loss is recognized in other comprehensive income (loss).

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for credit losses is determined on a collective basis where similar risk characteristics exist and on an individual basis when we identify significant customers or invoices with collectability issues. The estimate for credit losses considers historical write-offs by aging category, that are adjusted for current conditions and reasonable and supportable forecasts of future losses. Any change in the assumptions used in analyzing credit losses may result in additional allowances being recognized in the period in which the change occurs. When the Company ultimately concludes that a receivable is uncollectible, the balance is written off against the allowance for credit losses. Payments subsequently received on such receivables are recognized in the period received. The allowance for credit losses recognized and write-offs charged against the allowance were not significant for the years ended December 31, 2020 and 2019.

Non-marketable securities

During the fiscal year ended December 31, 2018, the Company invested $2.5 million in preferred stock of a privately-held company. The fair value of the investment is not readily available, and there are no quoted market prices for the investment. The Company elected the measurement alternative to account for the investment at cost less impairment and will measure the investment at fair value when the Company identifies observable price changes. The investment is assessed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. No impairment has been incurred related to the investment. The investment is included in other noncurrent assets on the consolidated balance sheets. The Company has not received any dividends from the investment.

Property and Equipment, net

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the remaining lease term.

The Company purchases physical scanner appliances and other computer equipment that are provided to customers on a subscription basis. This equipment is recorded within property and equipment and the depreciation is recorded in cost of revenues over an estimated useful life of three years.

Upon retirement or disposal, the cost of assets and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statements of operations. Repairs and maintenance that do not extend the life of an asset are expensed as incurred and major improvements are capitalized as property and equipment.

Leases

The Company leases certain offices, computer equipment and its data center facilities under finance leases and non-cancelable operating leases. On January 1, 2019, the Company adopted ASC 842 Leases using the current period adjustment method with an effective date of January 1, 2019. For both operating and finance leases, we recognize a right-of-use asset, which represents our right to use the underlying asset for the lease term, and a lease liability, which represents the present value of our obligation to make payments arising over the lease term. Many of our leases include rental escalation clauses, renewal options and/or termination options that are factored into our determination of lease payments and lease terms when appropriate. The present value of the lease payments is calculated using the incremental borrowing rate of the underlying leases determined at lease commencement. As most of our leases do not provide a readily determinable implicit rate, the Company determines an incremental borrowing rate using a portfolio approach based on the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term as the leases.

Where the Company is the lessee, the Company elects to account for non-lease components associated with its leases (e.g., common area maintenance costs) and lease components separately for substantially all of its asset classes, except for data centers, for which the Company elected to combine lease and non-lease components. For leases with a term of one year or less, the Company has elected not to record the right-of-use asset or liability.

In arrangements where the Company is the lessor, the Company elected to apply the practical expedient to account for lease components (e.g., customer premise equipment) and non-lease components (e.g., service revenue) as combined components as revenue under ASC 606 as service revenues are the predominant components in the arrangements.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets, which consist of property and equipment, and intangible assets subject to amortization, for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment exists if the carrying amounts of such assets exceed the estimates of future undiscounted cash flows expected to be generated by such assets. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset’s estimated fair value. In each of 2020, 2019 and 2018, the Company had no impairment of long-lived assets.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination and is not subject to amortization. Goodwill and other intangible assets with indefinite lives are not amortized, but tested for impairment at least annually or more frequently if certain circumstances indicate a possible impairment may exist. These tests are performed at the reporting unit level. The Company’s operations are organized as one reporting unit.

In testing for a potential impairment of goodwill, the Company first performs a qualitative assessment of its reporting unit to determine if it is more likely than not (a more than 50% likelihood) that the fair value of the reporting unit is less than its carrying amount. If the fair value is not considered to be less than the carrying amount, no further evaluation is necessary. The Company performed the annual assessment on December 1, 2020 and 2019 and concluded there was no potential impairment of goodwill.

In testing for a potential impairment of intangible assets with indefinite lives that are not subject to amortization, the Company first performs a qualitative assessment to determine if it is more likely than not (a more than 50% likelihood) that the fair value of the indefinite-lived intangible assets is less than the carrying amount. If the fair value is not considered to be less than the carrying amount, no further evaluation is necessary. The Company performs the annual qualitative assessment in the fourth quarter each fiscal year. There were no such impairment losses during 2020, 2019 and 2018.

If the qualitative assessment indicates there is more than a 50% likelihood that the fair value is less than the carrying amount of the reporting unit or the intangible asset, the Company would perform a quantitative test. Goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value. For indefinite-lived intangible assets, the Company would perform the quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value.

Internally Developed Software

Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life, which is three years. Capitalized costs include salaries, benefits and stock-based compensation charges for employees that are directly involved in developing its cloud security platform during the post planning and implementation phases. Capitalized costs related to internally developed software under development are treated as construction in progress until the program, feature or functionality is ready for its intended use, at which time amortization commences. These capitalized costs are included in other noncurrent assets on the consolidated balance sheets. For the fiscal years 2020, 2019 and 2018, the Company capitalized $1.0 million, $1.0 million and $1.3 million of costs related to internally developed software (of which $0.2 million, $0.2 million and $0.2 million, respectively, were stock-based compensation), respectively. As of December 31, 2020 and 2019, unamortized internally developed software costs totaled $2.6 million and $2.0 million, respectively. Amortization of internally developed software is recorded in cost of revenues. Costs associated with minor enhancements and maintenance are expensed as incurred. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Business Combinations

The Company applies the provisions of ASC 805, Business Combinations, in accounting for its acquisitions. It requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as any contingent consideration, where applicable, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to its consolidated statements of operations.

Derivative Financial Instruments

Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company uses foreign currency forward contracts, with maturities of 13 months or less, to mitigate the impact of foreign currency fluctuations of certain non-U.S. dollar denominated net asset positions, to date primarily cash, accounts receivable and operating lease liabilities, as well as to manage foreign currency fluctuation risk related to forecasted transactions. Open contracts are recorded within prepaid expenses and other current assets, other noncurrent assets, accrued liabilities or other noncurrent liabilities in the consolidated balance sheets. Gains and losses resulting from currency exchange rate movements on non-designated forward contracts are recognized in other income (expense), net. Any gains or losses from derivatives designated as cash flow hedges are first recorded within accumulated other comprehensive income (“AOCI”) and then reclassified into revenue or operating expenses when the hedged item impacts the consolidated statements of operations. Cash flows related to these forward contracts are classified in our consolidated statements of cash flows in the same manner as the underlying hedged transaction within cash flows from operating activities.

Stock-Based Compensation

The Company recognizes the fair value of its employee stock options and restricted stock units (RSU) on a straight-line basis over the requisite service periods for those awards ultimately expected to vest. The fair value of each option is estimated on the date of grant using the Black-Scholes-Merton option pricing model and the fair value of each RSU is based on the price of the Company’s stock on the date of grant. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

For performance-based non-qualified stock options (PSO) and performance-based restricted stock units (PSU), we recognize compensation costs over the requisite service period when it is probable that the performance conditions will be met. We assess these conditions on a quarterly basis.

Revenue Recognition

The Company derives revenues from subscriptions that require customers to pay a fee in order to access the Company’s cloud solutions. Contract period with customers generally ranges from less than a year to five years. The subscription fee entitles the customer to an unlimited number of scans for a specified number of networked devices or web applications and, if requested by a customer as part of their subscription, a specified number of physical or virtual scanner appliances. The Company’s physical and virtual scanner appliances are requested by certain customers as part of their subscriptions in order to scan IT infrastructures within their firewalls and do not function without, and are not sold separately from, subscriptions for the Company’s solutions. In some limited cases, the Company also provides certain computer equipment used to extend its Qualys Cloud Platform into its customers’ private cloud environment. Customers are required to return physical scanner appliances and computer equipment if they do not renew their subscriptions.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

At the inception of a customer contract, the Company makes an assessment as to that customer’s ability to pay for the services provided. The Company assesses collectability based on a number of factors, including credit worthiness of the customer along with past transaction history. In addition, the Company performs periodic evaluations of its customers’ financial condition.

The vast majority of the Company’s revenue contracts are subscription based and contain a single performance obligation. In the rare case that multiple performance obligations exist, the Company determines the standalone selling prices (“SSP”) of each performance obligation at contract inception, using information that may include market conditions and other observable inputs. As the Company, in general, does not offer rights of return, performance bonuses, customer loyalty programs, payments via non-cash methods, refunds, volume rebates, incentive payments, penalties, price concessions or payments or discounts contingent on future events, the contract prices are generally composed of fixed amount consideration for a specific period of time and typically do not include variable consideration. The subscription contracts typically do not confer to the customers any future rights that would constitute material rights under ASC 606.

Revenue is recognized when control of the subscription service is transferred to its customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. The Company's subscription services are typically satisfied ratably over the subscription term as its cloud-based offerings are delivered to customers electronically and over time. In addition, the Company recognizes revenues for certain limited scan arrangements on an as-used basis. The Company recognizes revenue related to professional services based on time and materials or completion of milestones stated in the contracts. When physical equipment are provided to the customers as part of the subscription service contract, the Company applies the practical expedient allowed under ASC 842 Leases to combine lease and nonlease components as a combined component to be accounted for under ASC 606, as the Company determined that the software subscription is the predominant component of the combined components. Therefore, the Company recognizes revenue for the physical equipment ratably over the related subscription period.

Deferred revenues consist of customer contracts billed or cash received that will be recognized in the future under subscriptions existing at the balance sheet date. The current portion of deferred revenues represents amounts that are expected to be recognized within one year of the balance sheet date.

Costs of shipping and handling charges incurred by the Company associated with physical scanner appliances and other computer equipment are included in cost of revenues. Sales taxes and other taxes collected from customers to be remitted to government authorities are excluded from revenues.

Incremental direct costs of obtaining a contract, which consist of sales commissions primarily for new business and upsells, are deferred and amortized over the estimated life of the customer relationship if renewals are expected and the renewal commission is not commensurate with the initial commission. The Company elected the practical expedient to expense commissions on renewals where the specific anticipated contract term amortization period is one year or less. The Company amortizes the capitalized commission cost as a selling expense on a straight-line basis over a period of five years. The Company classifies deferred commissions as current or noncurrent based on the timing of when it expects to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and other noncurrent assets, respectively, in its consolidated balance sheets.

Advertising Expenses

Advertising costs are expensed as incurred and include costs of advertising and promotional materials. The Company incurred advertising costs of $207 thousand, $74 thousand and $87 thousand for 2020, 2019 and 2018, respectively.

Income Taxes

The Company provides for the effect of income taxes in its consolidated financial statements using the asset and liability method which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryovers, and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Income tax expense or benefit is recognized for the amount of taxes payable or refundable for the current year and for deferred tax assets and liabilities for the tax consequences of events that have been recognized in an entity's financial statements or tax returns. The Company must make significant assumptions, judgments and estimates to determine its current provision for (benefit from) income taxes, its deferred tax assets and liabilities, and any valuation allowance to be recorded against its deferred tax assets. The Company's judgments, assumptions and estimates relating to the current provision for (benefit from) income taxes include the geographic mix and amount of income (loss), its interpretation of current tax laws, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. The Company's judgments also include anticipating the tax positions the Company will record in the consolidated financial statements before actually preparing and filing the tax returns. The Company's estimates and assumptions may differ from the actual results as reflected on its income tax returns and will record the required adjustments when they are identified or resolved. Changes in the Company's business, tax laws or its interpretation of tax laws, and developments in current and future tax audits, could significantly impact the amounts provided for income taxes in the Company's results of operations, financial position, or cash flows.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to tax benefit carry-forwards and to differences between the financial statement amounts of assets and liabilities and their respective tax basis. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. To make this assessment, the Company takes into account predictions of the amount and category of taxable income from various sources and all available positive and negative evidence about these possible sources of taxable income. The weight given to the potential effect of negative and positive evidence is commensurate with the extent to which the strength of the evidence can be objectively verified.

The Company applies a two-step approach to determining the financial statement recognition and measurement of uncertain tax positions. The Company only recognizes an income tax expense or benefit with respect to uncertain tax positions in its financial statements that the Company judges is more likely than not to be sustained solely on its technical merits in a tax audit, including resolution of any related appeals or litigation processes. To make this judgment, the Company must interpret complex and sometimes ambiguous tax laws, regulations and administrative practices. If an income tax position meets the more likely than not recognition threshold, then the Company must measure the amount of the tax benefit to be recognized by determining the largest amount of tax benefit that has a greater than a 50% likelihood of being realized upon effective settlement with a taxing authority that has full knowledge of all of the relevant facts. It is inherently difficult and subjective to estimate such amounts, as this requires the Company to determine the probability of various possible settlement outcomes. To determine if a tax position is effectively settled after a tax examination has been completed, the Company must also estimate the likelihood that another taxing authority could review the respective tax position. The Company must also determine when it is reasonably possible that the amount of unrecognized tax benefits will significantly increase or decrease in the 12 months after each fiscal year-end. These judgments are difficult because a taxing authority may change its behavior as a result of the Company's disclosures in its financial statements. The Company must reevaluate its income tax positions on a quarterly basis to consider factors such as changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes.

Comprehensive Income (Loss)

Other comprehensive income (loss) consists of unrealized gains (losses) on marketable securities, net of tax, and derivative financial instruments designated as cash flow hedges which are not included in the Company's net income. Total comprehensive income includes net income and other comprehensive income (loss) and is included in the consolidated statements of comprehensive income.

Foreign Currency Transactions

The Company's operations are conducted in various countries around the world and the financial statements of its foreign subsidiaries are reported in the U.S. dollar as their respective functional currency. Monetary assets and liabilities denominated in foreign currencies have been re-measured into U.S. dollars using the exchange rates in effect at the balance sheet date, and income and expenses are re-measured at average exchange rates during the period. Foreign currency re-measurement gains and losses and foreign currency transaction gains and losses are recognized in other income (expense), net. The Company recorded total foreign currency transaction gain of $0.3 million and losses of $0.4 million and $0.6 million during 2020, 2019 and 2018, respectively.

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. All participating securities are excluded from basic weighted average common shares outstanding. Diluted net income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period, adjusted for the effects of potentially dilutive common shares, which are comprised of outstanding stock options and RSUs. The dilutive potential common shares are computed using the treasury stock method or the as-if converted method, as applicable. The outstanding stock options and RSUs which would be anti-dilutive are excluded from the computation of diluted net income per common share.

Recently Adopted Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs related to internal-use software. It also requires the Company to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The Company adopted this ASU prospectively to applicable implementation costs incurred since January 1, 2020. The adoption did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326) as modified by subsequently issued ASU No. 2018-19, 2019-04, 2019-05 and 2019-11, which introduces a new accounting model, Current Expected Credit Losses (“CECL”). CECL requires earlier recognition of credit losses, while also providing additional transparency about credit risk. CECL utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The Company adopted this ASU on January 1, 2020, using a modified retrospective transition method, which requires a cumulative-effect adjustment, if any, to the opening balance of retained earnings to be recognized on the date of adoption with prior periods not restated. The adoption did not have a material impact on the Company’s consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU No. 2019-12, Simplifying the Accounting for Income Taxes (ASU 2019-12), which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, Income Taxes, and clarifies certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective for the Company for fiscal years beginning after December 15, 2020. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

NOTE 2. Fair Value of Financial Instruments

Fair value is defined as the price 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. For certain of the Company’s financial instruments, including certain cash equivalents, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate their fair values due to the relatively short maturity of these balances.

The Company measures and reports certain cash equivalents, marketable securities, derivative foreign currency forward contracts at fair value in accordance with the provisions of the authoritative accounting guidance that addresses fair value measurements. This guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2—Valuations based on other than quoted prices in active markets for identical assets and liabilities, including quoted prices for identical assets or liabilities in less active or inactive markets, quoted prices for similar assets or liabilities in active markets, or inputs other than quoted prices that are observable for substantially the full term of the assets or liabilities.

Level 3—Valuations based on inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability.

The Company’s financial instruments consist of assets and liabilities measured using Level 1 and 2 inputs. Level 1 assets include a highly liquid money market fund, which is valued using unadjusted quoted prices that are available in an active market for an identical asset. Level 2 assets include fixed-income U.S. and foreign government agency securities, commercial paper, corporate bonds, asset-backed securities and derivative financial instruments consisting of foreign currency forward contracts. The securities, bonds and commercial paper are valued using prices from independent pricing services based on quoted prices of identical instruments in less active or inactive market, quoted prices of similar instruments in active market or industry models using data inputs such as interest rates and prices that can be directly observed or corroborated in active markets. The foreign currency forward contracts are valued using observable inputs, such as quotations on forward foreign exchange points and foreign interest rates.

The Company's cash and cash equivalents, short-term marketable securities, and long-term marketable securities consist of the following:

	December 31, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$ 33,105	$ —	$—	$ 33,105
Money market funds	38,028	—	—	38,028
Commercial paper	2,999	—	—	2,999
Total	74,132	—	—	74,132
Short-term marketable securities:				
Commercial paper	6,147	—	—	6,147
Corporate bonds	24,368	170	—	24,538
Asset-backed securities	6,263	18	—	6,281
U.S. government agencies	244,568	369	(11)	244,926
Total	281,346	557	(11)	281,892
Long-term marketable securities:				
Asset-backed securities	38,456	160	(3)	38,613
U.S. government agencies	6,884	17	—	6,901
Foreign government agencies	1,006	31	—	1,037
Corporate bonds	51,068	839	—	51,907
Total	97,414	1,047	(3)	98,458
Total	$452,892	$1,604	$(14)	$454,482

	December 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$ 84,102	$ —	$—	$ 84,102
Money market funds	58	—	—	58
Commercial paper	3,399	—	—	3,399
Total	87,559	—	—	87,559
Short-term marketable securities:				
Commercial paper	2,239	—	—	2,239
Corporate bonds	33,048	51	(1)	33,098
Asset-backed securities	2,438	11	—	2,449
U.S. government agencies	173,364	184	(3)	173,545
Total	211,089	246	(4)	211,331
Long-term marketable securities:				
Asset-backed securities	40,001	193	(1)	40,193
U.S. government agencies	46,447	370	—	46,817
Corporate bonds	32,236	262	—	32,498
Total	118,684	825	(1)	119,508
Total	$417,332	$1,071	$ (5)	$418,398

As of December 31, 2020 and 2019, there were no marketable securities that had been in a continuous unrealized loss position for 12 months or longer. The Company had the ability and intent to hold all marketable securities that were in an unrealized loss position until recovery of the amortized cost basis. The Company considered the extent to which fair value was less than amortized cost basis and conditions related to security's industry and geography and changes to the ratings, if any, and concluded the decline in fair value compared to carrying value was not related to credit loss.

The following table sets forth by level within the fair value hierarchy the fair value of the Company's cash equivalents and marketable securities measured on a recurring basis:

	December 31, 2020		
	Level 1	Level 2	Fair Value
	(in thousands)		
Money market funds	$38,028	$ —	$ 38,028
Commercial paper	—	9,146	9,146
U.S. government agencies	—	251,827	251,827
Foreign government agencies	—	1,037	1,037
Corporate bonds	—	76,445	76,445
Asset-backed securities	—	44,894	44,894
Total	$38,028	$383,349	$421,377

	December 31, 2019		
	Level 1	Level 2	Fair Value
		(in thousands)	
Money market funds	$ 58	$ —	$ 58
Commercial paper	—	5,638	5,638
U.S. government agencies	—	220,362	220,362
Corporate bonds	—	65,596	65,596
Asset-backed securities	—	42,642	42,642
Total	$ 58	$334,238	$334,296

As of December 31, 2020 and 2019, the Company had no investments utilizing level 3 inputs.

The following summarizes the fair value of marketable securities classified as AFS debt securities by contractual maturity:

	December 31, 2020			
	Mature within One Year	After One Year through Two Years	Over Two Years	Fair Value
		(in thousands)		
Commercial paper	$ 9,146	$ —	$ —	$ 9,146
U.S. government agencies	244,925	6,715	187	251,827
Foreign government agencies	—	—	1,037	1,037
Corporate bonds	24,538	31,983	19,924	76,445
Asset-backed securities	6,282	18,642	19,970	44,894
Total	$284,891	$57,340	$41,118	$383,349

Derivative Financial Instruments

Designated cash flow hedges

The Company uses a hedging strategy to reduce its exposure to foreign currency exchange rate fluctuations for forecasted subscription renewals and new orders in both GBP and Euro. The Company uses forward currency contracts accounted for as cash flow hedges against a designated portion of forecasted subscription renewals and new orders. Unrealized foreign exchange gains or losses related to those designated cash flow hedge contracts are recorded in AOCI and will be reclassified into revenues in the same periods when the hedged contracts are recognized into revenues.

In addition, the Company uses a hedging strategy to reduce its exposure associated with costs incurred in INR. Unrealized foreign exchange gains or losses related to those designated cash flow hedge contracts are recorded in AOCI and will be reclassified into operating expenses when the associated hedged expenses are incurred.

At December 31, 2020, the Company had 39 open designated cash flow hedge forward contracts with notional amounts of €25.9 million, £8.7 million and Rs. 1,933.5 million. At December 31, 2019, the Company had 26 open cash flow hedge contracts with notional amount of €24.2 million and £9.7 million.

At December 31, 2020 and 2019, a net amount of unrealized losses of $1.8 million before tax and unrealized gains of $0.7 million before tax, respectively, on the foreign currency forward contracts for GBP and Euro reported in AOCI is expected to be reclassified into revenue within the next 12 months. At December 31, 2020, a net amount of unrealized gains of $1.5 million before tax on the foreign currency forward contracts for INR reported in AOCI is expected to be reclassified into operating expenses within the next 12 months.

Non-designated forward contracts

At December 31, 2020, the Company had 24 outstanding non-designated forward contracts with notional amounts of €17.7 million, £6.5 million and Rs. 32.8 million which will mature at various dates through January 2022. At December 31, 2019, the Company had 15 outstanding non-designated forward contracts with notional amounts of €20.0 million, £5.6 million and Rs. 756.0 million.

The following summarizes derivative financial instruments as of December 31, 2020 and 2019:

	December 31,	
	2020	2019
	(in thousands)	
Assets:		
Foreign currency forward contracts designated as cash flow hedge	$ 511	$ 427
Foreign currency forward contracts not designated as hedging instruments	27	515
Total	$ 538	$ 942
Liabilities:		
Foreign currency forward contracts designated as cash flow hedge	$(2,200)	$ (524)
Foreign currency forward contracts not designated as hedging instruments	(1,677)	(550)
Total	$(3,877)	$(1,074)

All foreign currency forward contracts were valued at fair value using level 2 inputs.

The following summarizes the gains (losses) recognized from forward contracts and other foreign currency transactions in other income (expense), net on the consolidated statements of operations:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Net gains (losses) from forward contracts	$(1,634)	$ 438	$ 543
Other foreign currency transaction gains (losses)	1,894	(792)	(1,120)
Total foreign exchange gains (losses), net	260	(354)	(577)
Other expenses	(253)	(253)	(224)
Other income (expense), net	$ 7	$(607)	$ (801)

NOTE 3. Accumulated Other Comprehensive Income

The components of AOCI were as follows:

	December 31,	
	2020	2019
	(in thousands)	
Unrealized gains (losses) on AFS debt securities	$ 1,224	$ 822
Unrealized gains (losses) on cash flow hedges	(1,708)	340
Total accumulated other comprehensive income	(484	$1,162

The effects on income before income taxes of amounts reclassified from AOCI to the consolidated statements of operations were as follows:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Reclassification of AOCI—AFS debt securities			
Other income (expense), net	$ 25	$ —	$(289)
Reclassification of AOCI—cashflow hedges			
Revenue	$ 960	$134	$ —
Cost of revenues	(76)	—	—
Research and development expenses	(264)	—	—
Sales and marketing expenses	(20)	—	—
General and administrative expenses	(36)	—	—
Total	$ 564	$134	$ —

NOTE 4. Property and Equipment, Net

Property and equipment, net, which includes assets under finance lease, consists of the following:

	December 31,	
	2020	2019
	(in thousands)	
Computer equipment	$ 136,286	$ 112,599
Computer software	26,164	26,137
Scanner appliances	16,749	15,864
Furniture, fixtures and equipment	6,599	6,973
Equipment under capital lease	3,503	3,503
Leasehold improvements	21,107	18,817
Total property and equipment	210,408	183,893
Less: accumulated depreciation and amortization	(145,558)	(123,314)
Property and equipment, net	$ 64,850	$ 60,579

Physical scanner appliances and other computer equipment that are or will be subject to leases by customers have a net carrying value of $7.5 million and $4.9 million, respectively, including assets that have not been placed in service of $1.9 million and $0.9 million, respectively, as of December 31, 2020 and 2019. Depreciation and amortization expenses relating to property and equipment were $26.1 million, $24.9 million and $25.1 million for 2020, 2019 and 2018, respectively.

NOTE 5. Revenue from Contracts with Customers

The Company records deferred revenue when cash payments are received or due in advance of its performance offset by revenue recognized in the period. Revenues of $188.6 million and $160.8 million were recognized during the years ended December 31, 2020 and December 31, 2019, respectively, which amounts were included in the deferred revenue balances as of December 31, 2019 and December 31, 2018, respectively.

The Company's payment terms vary by the type and location of its customers and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, the Company requires payment before the products or services are delivered to the customer.

The following table sets forth the expected revenue from all remaining performance obligations as of December 31, 2020:

	(in thousands)
2021	$103,165
2022	70,381
2023	35,304
2024	1,363
2025	401
2026 and thereafter	168
Total	$210,782

Revenues allocated to remaining performance obligations represents the transaction price of noncancelable orders for which service has not been performed, which include deferred revenue and the amounts that will be invoiced and recognized as revenues in future periods from open contracts and excludes unexercised renewals. The Company applied the short-term contract exemption to exclude the remaining performance obligations that are part of a contract that has an original expected duration of one year or less.

From time to time, the Company enters into contracts with customers that extend beyond one year, with certain of its customers electing to pay for more than one year of services upon contract execution. For any discounts associated with these multiple year contracts, the Company concluded its contracts did not contain a financing component.

Revenues by sales channel are as follows:

	Year Ended December 31, 2020	2019	2018
	(in thousands)		
Direct	$212,296	$186,130	$164,084
Partner	150,667	135,477	114,805
Total	$362,963	$321,607	$278,889

The Company utilizes partners to enable and accelerate the adoption of its cloud platform by increasing its distribution capabilities and market awareness of its cloud platform as well as by targeting geographic regions outside the reach of its direct sales force. The Company's channel partners maintain relationships with their customers throughout the territories in which they operate and provide their customers with services and third-party solutions to help meet those customers' evolving security and compliance requirements. As such, these partners may offer the Company's IT security and compliance solutions in conjunction with one or more of their own products or services and act as a conduit through which the Company can connect with these prospective customers to offer its solutions. For sales involving a channel partner, the channel partner engages with the prospective customer directly and involves the Company's sales team as needed to assist in developing and closing an order. When a channel partner secures a sale, the Company sells the associated subscription to the channel partner who in turn resells the subscription to the customer. Sales to channel partners are made at a discount and revenues are recorded at this discounted price over the subscription terms. The Company does not have any influence or specific knowledge of its partners' selling terms with their customers. See Note 13, "Segment Information and Information about Geographic Area" for disaggregation of revenue by geographic area.

Capitalized costs to obtain contracts, current and noncurrent are as follows:

	December 31, 2020	December 31, 2019
	(in thousands)	
Commission asset, current	$3,459	$2,568
Commission asset, noncurrent	$6,906	$6,454

For the years ended December 31, 2020, 2019,and 2018, the Company recognized $3.0 million, $2.0 million and $1.2 million of commission expense from amortization of its commission assets, respectively. During the same periods, there was no impairment loss related to the capitalized costs.

NOTE 6. Acquisitions

The following table summarizes the purchase price allocation of business and asset acquisitions during the fiscal years 2020, 2019 and 2018 based on estimated fair values of the acquired assets as of the acquisition date:

Acquiree	Acquisition Date	Purchase Consideration	Net Tangible Assets Acquired/ (liabilities assumed)	Purchased Intangible Assets	Goodwill	Deferred Tax Liability
			(in thousands)			
Spell security	July 24, 2020	$ 1,500	$ —	$1,500	$ —	$ —
Adya	January 10, 2019	$ 1,000	$ —	$ 900	$ 100	$ —
Layered Insight	October 16, 2018	$13,434	$(80)	$9,600	$5,498	$(1,500)
1Mobility	April 1, 2018	$ 4,000	$ —	$3,700	$ 300	$ —

On July 24, 2020, the Company acquired certain intangible assets of Spell Security, a privately held company incorporated in India. Spell Security's technology expands the Company's endpoint behavior detection, threat hunting, malware research and multi-layered response capabilities for its EDR application. The purchase consideration related to the acquisition was $1.5 million in cash, including $0.2 million of deferred consideration due 15 months from the closing date of the acquisition, subject to potential adjustment from possible indemnity claims. The Company accounted for this transaction as an asset purchase. The Company recognized intangible assets of $1.0 million for developed technology and $0.5 million for non-compete agreements, which will be amortized over four and two years, respectively.

On January 10, 2019, the Company acquired the assets of Adya, an India-based company. The acquisition included a cloud application management platform, which enables security and compliance audits of SaaS applications. Total purchase consideration included $0.2 million of deferred consideration due 18 months from the closing date of the acquisition, subject to potential adjustment from possible indemnity claims, which was fully paid to Adya during the fiscal year ended December 31, 2020. The acquired intangible assets relating to Adya's developed technology are being amortized over the estimated useful lives of approximately four years. Goodwill arising from the Adya acquisition is deductible for tax purposes over 15 years.

On October 16, 2018, the Company completed the acquisition of Layered Insight, a pioneer and global leader in container native application protection, providing accurate insight into container images, adaptive analysis of running containers, and automated enforcement of the container environment. Of the total consideration, $1.6 million was paid during the fiscal year ended December 31, 2019 based on the terms and conditions of the purchase agreement. All consideration was paid in cash. The Company also paid additional $4.0 million as the acquired business had achieved certain integration milestones for the annual period ending December 31, 2019. In addition, the Company initially recorded $1.5 million of the contingent consideration related to revenue milestone payments in accrued liabilities of the consolidated balance sheet as of December 31, 2018, which was reversed during the fiscal year 2019 as the revenue milestone was not met. The acquired intangible asset relating to Layered Insight's developed technology is amortized over the estimated useful life of approximately four years. Goodwill arising from the Layered Insight acquisition is not deductible for tax purposes.

On April 1, 2018, the Company acquired the assets of 1Mobility, a Singapore-based company. The acquisition allowed the Company to provide enterprises of all sizes with the ability to create and continuously update an inventory of mobile devices on all versions of Android, iOS and Windows Mobile in their environment; and to continuously assess their security and compliance posture, while quarantining devices that were compromised or out-of-compliance. Of the total purchase consideration, $0.6 million was paid during the fiscal year ended December 31, 2019 based on the terms and conditions of the purchase agreement. The acquired intangible assets relating to 1Mobility's developed technology is being amortized over the estimated useful lives of approximately four years. Goodwill arising from the 1Mobility acquisition is deductible for tax purposes over 15 years.

Pro forma financial information for these acquisitions in the fiscal years 2020, 2019 and 2018 was not presented because the acquisitions were not material to the Company's consolidated financial statements, either individually or in aggregate.

Changes in the carrying amount of goodwill for the years ended December 31, 2020, 2019 and 2018 were as follows:

	(in thousands)
Balance as of December 31, 2018	$7,225
Goodwill acquired	100
Adjustment	122
Balance as of December 31, 2019 and 2020	$7,447

NOTE 7. Intangible Assets, Net

Intangible assets consist primarily of developed technology and patent licenses acquired from business or asset acquisitions. Acquired intangibles are amortized on a straight-line basis over the respective estimated useful lives of the assets.

The carrying values of intangible assets are as follows:

			December 31, 2020		
	Weighted Average Lives (Years)	Weighted Average Remaining Lives (Years)	Cost	Accumulated Amortization	Net Book Value
				(in thousands)	
Developed technology	4.4	1.8	$27,356	$(16,152)	$11,204
Patent licenses	14.0		1,387	(1,021)	366
Non-compete agreements	2.0		500	(104)	396
Total intangibles subject to amortization			$29,243	$(17,277)	11,966
Intangible assets not subject to amortization					40
Total intangible assets, net					$12,006

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	Weighted Average Lives (Years)	Weighted Average Remaining Lives (Years)	December 31, 2019 Cost	Accumulated Amortization	Net Book Value
				(in thousands)	
Developed technology	4.6	2.7	$26,356	$(10,066)	$16,290
Patent licenses	14.0	4.7	1,387	(922)	465
Total intangibles subject to amortization			$27,743	$(10,988)	16,755
Intangible assets not subject to amortization					40
Total intangible assets, net					$16,795

Intangible assets amortization expenses were $6.3 million, $6.1 million and $3.7 million for 2020, 2019 and 2018 respectively, which were recorded in cost of revenues in the consolidated statements of operations.

As of December 31, 2020, the Company expects amortization expense in future periods to be as follows:

	(in thousands)
2021	$ 6,581
2022	4,823
2023	350
2024	212
Total expected future amortization expense	$11,966

NOTE 8. Leases

The following table presents the lease-related assets and liabilities recorded on the balance sheet:

Classification on the Balance Sheet	Classification of Lease	December 31, 2020	December 31, 2019
		(in thousands)	
Assets			
Operating lease—right of use asset	Operating leases	$44,838	$40,551
Property and equipment, net	Finance leases	131	1,299
Total lease assets		$44,969	$41,850

Classification on the Balance Sheet	Classification of Lease	December 31, 2020	December 31, 2019
		(in thousands)	
Liabilities			
Current			
Operating lease liabilities, current	Operating leases	$11,672	$ 7,663
Accrued liabilities	Finance leases	64	124
Noncurrent			
Operating lease liabilities, noncurrent	Operating leases	45,700	44,015
Other noncurrent liabilities	Finance leases	—	54
Total lease liabilities		$57,436	$51,856

The Company leases certain offices, computer equipment and its data center facilities under non-cancelable operating leases for varying periods through 2029. While under our lease agreements we have options to extend our leases up to four years, we have not included renewal options in determining the lease terms for calculating our lease liabilities, as these options have not been reasonably certain of exercise.

Leases expense was $16.7 million, $13.9 million and $9.9 million for 2020, 2019 and 2018, respectively.

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
	(in thousands)	
Operating cash flows included in the measurement of lease liabilities	13,403	9,372
Lease liabilities arising from obtaining right of use assets	15,837	17,359

Maturities of the Company's operating lease liabilities at December 31, 2020 are as follows:

	(in thousands)
2021	$ 14,186
2022	13,316
2023	11,297
2024	10,010
2025	6,407
2026 and thereafter	10,317
Total minimum lease payments	65,533
Less: amount representing interest	(8,161)
Present value of minimum payments	57,372
Less: lease obligations, current	(11,672)
Lease obligations, noncurrent	$ 45,700

The weighted average remaining lease term and the weighted average discount rate of the Company's leases were as follows:

	December 31, 2020	December 31, 2019
Weighted average remaining lease term (years)		
Operating leases	4.1	6.5
Finance leases	0.1	1.3
Weighted average discount rates		
Operating leases	4.8%	5.0%
Finance leases	5.0%	5.0%

NOTE 9. Commitment and Contingencies

Purchase Obligation

The Company has entered into agreements to purchase goods and services in the ordinary course of business. As of December 31, 2020, these remaining purchase commitments for future periods are as follows:

	(in thousands)
2021	$20,131
2022	6,528
2023	6,924
2024	7,780
2025	1,873
Total purchase commitment	$43,236

Indemnifications

The Company from time to time enters into certain types of contracts that contingently require it to indemnify various parties against claims from third parties. These contracts primarily relate to (i) the Company's by-laws, under which it must indemnify directors and executive officers, and may indemnify other officers and employees, for liabilities arising out of their relationship, (ii) contracts under which the Company must indemnify directors and certain officers for liabilities arising out of their relationship, and (iii) contracts under which the Company may be required to indemnify customers or resellers from certain liabilities arising from potential infringement of intellectual property rights, as well as potential damages caused by limited product defects. To date, the Company has not incurred and has not recorded any liability in connection with such indemnifications.

The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors.

Legal Proceedings

From time to time the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. The Company records a provision for a liability when it is both probable that a liability has been incurred and the amount can be reasonably estimated. The Company provides disclosure if it is reasonably possible that a loss has been incurred and a range of loss or possible loss can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. The Company reviews these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information.

As of December 31, 2020, there has not been at least a reasonable possibility that the Company has incurred a material loss from any ongoing legal proceedings, individually or taken together. However, litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond the Company's control. Should any of these estimates and assumptions change or prove to have been incorrect, the Company could incur significant charges related to legal matters which could have a material impact on its results of operations, financial position and cash flows.

NOTE 10. Stockholders' Equity and Stock-based Compensation

Common Stock

The Company had reserved shares of common stock for future issuance as of December 31, 2020 as follows:

Options and RSUs outstanding under equity incentive plans	
2000 Equity Incentive Plan	102,087
2012 Equity Incentive Plan	3,160,057
Shares available for future grants under an equity incentive plan	
2012 Equity Incentive Plan	6,628,383
Total shares reserved for future issuance	9,890,527

Preferred Stock

Effective October 3, 2012, the Company is authorized to issue 20,000,000 shares of undesignated preferred stock with a par value of $0.001 per share. Each series of preferred stock will have such rights and preferences including dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price, and liquidation preferences as determined by the Board. As of December 31, 2020, and 2019, there were no issued or outstanding shares of preferred stock.

Equity Incentive Plan

2012 Equity Incentive Plan

The 2012 Equity Incentive Plan was adopted and approved in September 2012 and became effective on September 26, 2012. Under the 2012 Plan, the Company is authorized to grant to eligible participant's incentive stock options (ISOs), non-statutory stock options (NSOs), stock appreciation rights (SARs), restricted stock awards (RSAs), RSUs, performance units and performance shares equivalent to up to 15,699,245 shares of common stock as of December 31, 2020. The number of shares of common stock available for issuance under the 2012 Plan includes an annual increase on January 1 of each year by an amount equal to the least of 3,050,000 shares; 5% of the outstanding shares of stock as of the last day of the immediately preceding fiscal year; or an amount determined by the Board of Directors. Options may be granted with an exercise price that is at least equal to the fair market value of the Company's stock at the date of grant and are exercisable when vested. Options and RSU's granted generally vest over a period of up to four years. ISOs may only be granted to employees and any subsidiary corporations' employees. All other awards may be granted to employees, directors and consultants and subsidiary corporations' employees and consultants. Options, SARs, RSUs, performance units and performance awards may be granted with vesting terms as determined by the Board of Directors and expire no more than ten years after the date of grant or earlier if employment or service is terminated.

2000 Equity Incentive Plan

Under the 2000 Equity Incentive Plan (2000 Plan), the Company was authorized to grant to eligible participants either ISOs or NSOs. The ISOs were granted at a price per share not less than the fair market value at the date of grant. The NSOs were granted at a price per share not less than 85% of the fair market value at the date of grant. Options granted generally vest over a period of up to four years, with a maximum term of ten years. The 2000 Plan was terminated in connection with the closing of the Company's initial public offering, and accordingly, no shares are currently available for grant under the 2000 Plan. The 2000 Plan continues to govern outstanding awards granted thereunder.

Options granted under the 2000 Plan were immediately exercisable, and unvested shares are subject to repurchase by the Company. Upon termination of employment of an option holder, the Company has the right to repurchase at the original purchase price any issued but unvested common shares. The amounts paid for shares purchased under an early exercise of stock options and subject to repurchase by the Company are not reported as a component of stockholders' equity until those shares vest. The amounts received in exchange for these shares are recorded as an accrued liability in the accompanying consolidated balance sheets and will be reclassified to common stock and additional paid-in capital as the shares vest.

Stock-based Compensation Expenses

The following table shows a summary of the stock-based compensation expense included in the consolidated statements of operations for the fiscal years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Cost of revenues	$ 2,767	$ 2,262	$ 2,489
Research and development	13,502	11,151	7,961
Sales and marketing	5,785	4,984	4,650
General and administrative	17,981	16,495	14,990
Total stock-based employee compensation	$40,035	$34,892	$30,090

The income tax benefit related to the stock-based compensation expenses was $5.5 million, $5.5 million and $4.8 million for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, the Company had $21.8 million of unrecognized employee compensation cost related to unvested stock options and $71.3 million of unrecognized compensation cost related to unvested RSU's that it expects to recognize over a weighted-average period of 2.7 years and 2.6 years, respectively.

The fair value of each option granted to employees is estimated on the date of grant using the Black-Scholes-Merton option-pricing model based on the following assumptions:

	Year Ended December 31,		
	2020	2019	2018
Expected term (in years)	4.5 to 5.5	4.4 to 6.6	4.5 to 5.0
Volatility	38% to 43%	40% to 46%	45% to 47%
Risk-free interest rate	0.3% to 1.4%	1.5% to 2.4%	2.5% to 3.0%
Dividend yield	—	—	—

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected term at the grant date. The volatility was estimated using the historical volatility derived from the Company's common stock. The Company has not historically declared any dividends and does not expect to in the future.
Stock Option Plan Activity

Stock Option Plan Activity

A summary of the Company's stock option activity is as follows:

	Outstanding Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of December 31, 2017	4,495,891	$25.29	6.6	$153,129
Granted	366,786	$79.79		
Exercised	(1,183,235)	$20.33		
Canceled	(250,133)	$39.61		
Balance as of December 31, 2018	3,429,309	$31.79	6.4	$149,935
Granted	496,145	$87.10		
Exercised	(901,290)	$27.55		
Canceled	(157,489)	$71.04		
Balance as of December 31, 2019	2,866,675	$40.54	6.0	$125,647
Granted	593,694	$99.77		
Exercised	(1,129,845)	$30.50		
Canceled	(115,082)	$87.91		
Balance as of December 31, 2020	2,215,442	$59.07	6.5	$139,121
Vested and expected to vest—December 31, 2020	2,071,441	$56.39	6.3	$135,647
Exercisable—December 31, 2020	1,290,452	$34.69	4.7	$112,502

The following table summarizes the outstanding and vested stock options at December 31, 2020:

	Outstanding			Exercisable	
Exercise Price	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Number of Shares	Weighted Average Exercise Price Per Share
4.4 – 20.8	266,447	$ 13.25	2.1	266,447	$13.25
22.31 – 25.17	130,550	$ 24.16	4.3	130,550	$24.16
25.56 – 25.56	264,824	$ 25.56	5.3	264,824	$25.56
26.86 – 34.97	227,072	$ 30.72	3.9	227,072	$30.72
36.25 – 52.6	232,792	$ 40.24	5.4	215,601	$39.80
59.95 – 86.35	307,387	$ 80.11	8.3	77,644	$74.90
87.26 – 89.55	189,217	$ 88.48	8.6	52,147	$88.42
93.08 – 93.08	223,744	$ 93.08	9.9	—	$ —
94.45 – 104.8	273,709	$ 97.76	8.8	56,167	$94.91
121.65 –121.65	99,700	$121.65	9.6	—	$ —
	2,215,442	$ 59.07	6.5	1,290,452	$34.69

The weighted-average grant date fair value of the Company's stock options granted during 2020, 2019 and 2018 was $35.49, $34.02 and $33.05, respectively. The total intrinsic value of options exercised during 2020, 2019 and 2018 was $77.5 million, $52.1 million and $71.7 million, respectively. Intrinsic value of an option is the difference between the fair value of the Company's common stock at the time of exercise and the exercise price paid.

A summary of the Company's RSU activity is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance as of December 31, 2017	1,410,588	$40.34
Granted	548,245	$75.44
Vested	(525,375)	$39.87
Cancelled	(206,575)	$43.43
Balance as of December 31, 2018	1,226,883	$55.71
Granted	595,985	$81.59
Vested	(438,892)	$53.17
Cancelled	(169,158)	$65.51
Balance as of December 31, 2019	1,214,818	$67.99
Granted	531,146	$99.96
Vested	(475,853)	$62.57
Cancelled	(223,409)	$77.37
Balance as of December 31, 2020	1,046,702	$86.78
Expected to vest as of December 31, 2020	961,926	$86.02

The aggregate vesting date fair value of RSUs vested during 2020, 2019 and 2018 was $46.5 million, $37.9 million and $38.9 million, respectively.

Performance-Based Stock Options and Restricted Stock Units

On December 10, 2020, the compensation committee of the Company's board of directors (Compensation Committee) granted the equity award for 2021 to the Company's Chairman and Chief Executive Officer, Philippe Courtot (Mr. Courtot). The first portion of the award consists of 69,401 RSUs that will vest in 16 quarterly installments beginning on November 1, 2020. The second portion of the award consists of a target number of 223,744 PSO, which will vest at the end of the three-year performance period from January 2021 through December 2023. The actual number of PSOs eligible to vest range from 0% to 200% of the target number, depending on the level of achievement of goals related to revenue growth and free cash flow per share growth during the performance period.

On November 2, 2019, the Compensation Committee granted the equity award for 2020 to Mr. Courtot. The first portion of the award consists of 48,683 RSUs that will vest in 16 quarterly installments beginning on December 1, 2019. The second portion of the award consists of a target number of 123,856 PSOs, which will vest at the end of the three-year performance period from January 2020 through December 2022. The actual number of PSOs eligible to vest range from 0% to 200% of the target number, depending on the level of achievement of goals related to revenue growth and free cash flow per share growth during the performance period.

On December 21, 2018, the Compensation Committee granted the equity award for 2019 to Mr. Courtot. The first portion of the award consists of 56,250 RSUs that will vest in 16 quarterly increments beginning on January 1, 2019. The second portion of the award consists of a target number of 33,089 PSU, which will vest at the end of the three-year performance period from January 2019 through December 2021. The actual number of PSUs eligible to vest range from 0% to 200% of the target number, depending on the level of achievement of goals related to revenue growth during the three-year performance period from January 2019 through December 2021 and Adjusted EBITDA margin for the fiscal year of 2021. The third portion of the award consists of a target number of 33,088 PSUs, one third of which (11,030 target PSUs) will vest at the end of each fiscal year of 2019, 2020 and 2021. The actual number of PSUs eligible to vest at each vesting date range from 0% to 200% of the target number, depending on the level of achievement of goals related to revenue growth and Adjusted EBITDA margin for each of those years.

The Compensation Committee, in consultation with its independent compensation consultant, designed these awards so that in each year greater than 50% of the compensation was based on the achievement of performance goals linked to metrics designed to drive the creation of shareholder value. The vesting of these awards is conditioned on Mr. Courtot's continued service through the vesting dates or, for PSOs and PSUs, the dates that performance is certified in addition to the achievement of performance goals. If Mr. Courtot's employment is terminated (a) by reason of death or disability or (b) by the Company for reasons other than cause or good reason within 12 months following a change in control, then 100% of any unvested portions of these awards will vest, with any vesting in connection with change in control terminations conditioned upon the effectiveness of a release of claims in favor of the Company .

During the year ended December 31, 2020, 14,864 PSUs, which represent 135% of the target, vested as a result of the Company achieving the corresponding level of performance goals for the fiscal year of 2019.

On June 10, 2020, the board of directors approved changes in the performance targets for certain previously granted PSO and PSU. Based on the projected performance levels expected to be achieved for those awards as of June 10, 2020, the modification resulted in an incremental expense of $7.5 million, which is expected to be recognized over 12 quarters beginning with the quarter ended June 30, 2020. This amount may change based upon actual performance achieved and updates to estimates of future performance during the remainder of the performance periods. During the year ended December 31, 2020, $0.9 million of incremental expenses due to the modification were recognized.

During the year ended December 31, 2020, stock-based compensation expense of $0.2 million and $2.8 million, including changes due to modifications, were recognized for PSOs and PSUs. During the year ended December 31, 2019, stock-based compensation expense of $0.3 million and $0.9 million were recognized for PSOs and PSUs, respectively.

Share Repurchase Program

On February 5, 2018, the Company's board of directors authorized a $100.0 million two-year share repurchase program, which was announced on February 12, 2018. On each of October 30, 2018, October 30, 2019 and May 7, 2020, the Company announced that its board of directors had authorized an increase of $100.0 million to the share repurchase program, resulting in an aggregate authorization of $400.0 million. Shares may be repurchased from time to time on the open market in accordance with Rule 10b-18 of the Exchange Act of 1934, including pursuant to a pre-set trading plan adopted in accordance with Rule 10b5-1 under the Exchange Act, until February 14, 2022.

Repurchased shares are retired and reclassified as authorized and unissued shares of common stock. On retirement of the repurchased shares, common stock is reduced by an amount equal to the number of shares being retired multiplied by the par value. The excess amount that is retired over its par value is first allocated as a reduction to additional paid-in capital based on the initial public offering price of the stock, with the remaining excess to retained earnings.

During the year ended December 31, 2020 and 2019, the Company repurchased 1,292,750 and 1,026,455 shares of its common stock for approximately $126.7 million and $86.4 million, respectively. All share repurchases were made using cash resources. As of December 31, 2020 and 2019, approximately $101.8 million and $128.5 remained available for share repurchases pursuant to the Company's share repurchase program.

On February 10, 2021, the Company announced that its Board of Directors authorized an additional $100.0 million to the original share repurchase program authorization, increasing the total amount of authorized repurchase to $500.0 million.

NOTE 11. Employee Benefits Plan

The Company's 401(k) Plan was established in 2000 to provide retirement and incidental benefits for its employees. As allowed under section 401(k) of the Internal Revenue Code, the 401(k) Plan provides tax-deferred salary deductions for eligible employees. Contributions to the 401(k) Plan are limited to a maximum amount as set periodically by the Internal Revenue Service. During the fiscal years ended December 31, 2020, 2019 and 2018, the Company made contributions to the 401(k) Plan of $1.3 million, $1.3 million and $1.2 million, respectively.

The Company contributes to a Provident Fund Plan for its employees in India, which is a defined contribution plan set up in accordance with local labor and tax laws. Gratuity is also paid by the Company to eligible employees in India in accordance with Payment of Gratuity Act, 1972. During the fiscal years ended December 31, 2020, 2019 and 2018, the Company contributed $1.4 million, $1.1 million and $0.7 million, respectively, to those plans.

NOTE 12. Income Taxes

The Company's geographical breakdown of income before income taxes is as follows:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Domestic	$ 94,099	$72,124	$50,010
Foreign	7,938	7,859	5,458
Income before income taxes	$102,037	$79,983	$55,468

The provision for (benefit from) income taxes consists of the following:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Current			
Federal	$ 1,944	$ (90)	$ (90)
State	1,438	646	62
Foreign	3,571	3,000	1,988
Total current provision	6,953	3,556	1,960
Deferred			
Federal	4,239	7,085	(3,449)
State	26	447	21
Foreign	(753)	(441)	(368)
Total deferred (benefit) provision	3,512	7,091	(3,796)
Total provision for (benefit from) provision for income taxes	$10,465	$10,647	$(1,836)

The reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31,		
	2020	2019	2018
Federal statutory rate	21.0%	21.0%	21.0%
State taxes	1.6	1.5	(1.9)
Stock-based compensation	4.8	4.0	5.8
Excess tax benefits related to stock-based compensation	(13.8)	(11.2)	(26.2)
Foreign source income	0.2	0.1	(0.2)
Change in valuation allowance	0.8	1.1	4.4
Foreign-derived intangible income deduction	(1.7)	—	—
Federal and state research and development credit	(2.6)	(3.7)	(6.7)
Other	—	0.4	0.5
Provision for (benefit from) income taxes	10.3%	13.2%	(3.3)%

Deferred Income Taxes

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2020	2019
	(in thousands)	
Deferred tax assets		
Net operating loss carryforwards	$ 290	$ 1,325
Research and development credit carryforwards	16,965	20,182
Foreign tax credit carryforwards	3,497	2,586
Accrued liabilities	2,019	1,109
Deferred revenues	5,123	4,843
Operating lease liabilities	15,924	13,187
Intangible assets	1,397	327
Stock-based compensation	3,907	5,942
Other	430	158
Gross deferred tax assets	49,552	49,659
Valuation allowance	(11,188)	(10,094)
Net deferred tax assets	38,364	39,565
Deferred tax liabilities		
Fixed assets	(7,017)	(8,097)
Operating leases—right of use asset	(13,054)	(10,496)
Deferred commissions	(2,482)	(2,142)
Total deferred tax liabilities	(22,553)	(20,735)
Net deferred tax assets	$ 15,811	$ 18,830

The realization of deferred tax assets is dependent upon the generation of sufficient taxable income of the appropriate character in future periods. The Company regularly assesses the ability to realize its deferred tax assets and establishes a valuation allowance if it is more-likely than-not that some portion, or all, of the deferred tax assets will not be realized. The Company weighs all available positive and negative evidence, including its earnings history and results of recent operations, scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies. Due to the weight of objectively verifiable negative evidence, it is more-likely-than-not that its California deferred tax assets will not be realized as of December 31, 2020. Additionally, due to a lack of sufficient future income of the appropriate character, certain U.S. federal and state deferred tax assets are not more-likely-than-not to be realized. Accordingly, the Company has recorded a valuation allowance of $11.2 million and $10.1 million against such deferred tax assets as of December 31, 2020 and 2019, respectively. The increase in valuation allowance was mainly associated with the California research and development credit generated during the year ended December 31, 2020 that will not likely be realized for the foreseeable future.

At December 31, 2020, the Company had federal and state net operating loss carryforwards of approximately $1.4 million and $0.1 million, respectively, available to reduce federal and state taxable income. The federal net operating losses begin to expire in 2022 and the state net operating losses begin to expire in 2037. Utilization of the Company's net operating loss carryforwards may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization. As of December 31, 2020, the Company had $10.7 million of federal and $15.0 million of state research and development credit carryforwards, respectively. Federal research and development credits begin to expire in 2035. State research and development credits do not expire. As of December 31, 2020, the Company had foreign tax credit carryforwards of $3.5 million which begin to expire in 2024.

The following table summarizes the activity related to the Company's unrecognized tax benefits:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Unrecognized tax benefits beginning balance	$7,778	$6,406	$5,112
Gross increase for tax positions of prior years	4	—	279
Gross decrease for tax positions of prior years	—	(12)	(227)
Gross increase for tax positions of current year	1,258	1,384	1,399
Lapse of statute of limitations	(185)	—	(157)
Total unrecognized tax benefits	$8,855	$7,778	$6,406

The unrecognized tax benefits, if recognized, would impact the income tax provision by $4.6 million, $4.2 million and $3.5 million as of December 31, 2020, 2019 and 2018, respectively. The remaining amount would result in the recognition of a corresponding deferred tax asset that is then offset by a full valuation allowance. As of December 31, 2020, the Company does not believe that its estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months. The Company has elected to include interest and penalties as a component of income tax expense. The amounts were not material for 2020, 2019 and 2018.

The Company files income tax returns in the United States, including various state jurisdictions. The Company's subsidiaries file tax returns in various foreign jurisdictions. The tax years 2001 through

2019 remain open to examination by the major taxing jurisdictions in which the Company is subject to tax. The Company is also currently subject to tax audits in various jurisdictions. The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner inconsistent with its expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

U.S. income tax has not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested outside the United States. A determination of the unrecognized deferred tax liability related to this basis difference is not practicable because of the complexities of the calculation.

NOTE 13. Segment Information and Information about Geographic Area

Under ASC 280 Segment Reporting, Operating segments are defined as components of an entity about which separate financial information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company operates in one segment and has only one reportable segment. The Company's chief operating decision maker is the Chairman and Chief Executive Officer, who makes operating decisions, assesses performance and allocates resources on a consolidated basis. All of the Company's principal operations and decision-making functions are located in the United States.

Revenue by geographic area, based on the customers billing address, is as follows:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
United States	$230,444	$206,555	$185,887
Foreign	132,519	115,052	93,002
Total revenues	$362,963	$321,607	$278,889

Property and equipment, net, by geographic area, is as follows:

	December 31,	
	2020	2019
	(in thousands)	
United States	$43,791	$46,100
India	12,465	9,221
Rest of world	8,594	5,258
Total property and equipment, net	$64,850	$60,579

NOTE 14. Net Income Per Share

The computations for basic and diluted net income per share are as follows:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands, except per share data)		
Numerator:			
Net income	$91,572	$69,336	$57,304
Denominator:			
Weighted-average shares used in computing net income per share—basic	39,167	39,075	38,876
Effect of potentially dilutive securities:			
Common stock options	1,267	1,807	2,401
Restricted stock units	389	463	620
Weighted-average shares used in computing net income per share—diluted	$40,823	$41,345	$41,897
Net income per share:			
Basic	$ 2.34	$ 1.77	$ 1.47
Diluted	$ 2.24	$ 1.68	$ 1.37

Potentially dilutive securities not included in the calculation of diluted net income per share because doing so would be anti-dilutive are as follows:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Common stock options	620	461	177
Restricted stock units	80	26	22
Total anti-dilutive shares	700	487	199

NOTE 15. Selected Quarterly Financial Information (Unaudited)

The following table shows a summary of the Company's quarterly financial information for each of the quarters in the two-year period ended December 31, 2020:

	Three Months Ended							
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
	(unaudited) (in thousands, except per share data)							
Revenues	$94,801	$93,069	$88,830	$86,263	$84,664	$82,671	$78,929	$75,343
Income from operations	24,412	26,303	25,508	20,431	19,545	22,549	16,108	14,051
Other income (expense), net	680	1,331	1,586	1,786	1,757	1,786	2,401	1,786
Income before income taxes	25,092	27,634	27,094	22,217	21,302	24,335	18,509	15,837
Net income	$23,816	$22,743	$26,319	$18,694	$20,664	$19,174	$16,232	$13,266
Net income per share:								
Basic	$ 0.61	$ 0.58	$ 0.67	$ 0.48	$ 0.53	$ 0.49	$ 0.41	$ 0.34
Diluted	$ 0.59	$ 0.56	$ 0.64	$ 0.46	$ 0.50	$ 0.47	$ 0.39	$ 0.32

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer, Chief Financial Officer and our Principal Accounting Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2020. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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 such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our 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 risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and our Principal Accounting Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on our evaluation under the criteria set forth in the 2013 Internal Control—Integrated Framework issued by the COSO, our management concluded our internal control over financial reporting was effective as of December 31, 2020.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2020 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in its report, which is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the fourth quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers and Directors

Except as set forth below, the information required by this item is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

Codes of Business Conduct and Ethics

Our Board of Directors has adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive and senior financial officers. The code of business conduct and ethics is available on our website. We expect that, to the extent required by law, any amendments to the code, or any waivers of its requirements, will be disclosed on our website. We intend to disclose any waiver to the provisions of the code of business conduct and ethics that applies specifically to directors or executive officers by filing such information on a Current Report on Form 8-K with the SEC, to the extent such filing is required by the NASDAQ Stock Market's listing requirements; otherwise, we will disclose such waiver by posting such information on our website.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item with respect to Item 403 of Regulation S-K regarding security ownership of certain beneficial owners and management is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020. For the information required by this item with respect to Item 201(d) of Regulation S-K regarding securities authorized for issuance under equity compensation plans, see "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Securities Authorized for Issuance under Equity Compensation Plans" in Item 5 of this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements—The financial statements filed as part of this Annual Report on Form 10-K are listed on the Index to Consolidated Financial Statements in Item 8.

(a)(2) Financial Statement Schedules—All financial statement schedules have been omitted since the required information is not applicable or has been included in the consolidated financial statements and accompanying notes included in this Form 10-K.

(b) Exhibits

			Incorporated by Reference			
Exhibit Number	Description	Filed Herewith	Form	File No.	Exhibit No.	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Qualys, Inc.		S-1/A	333-182027	3.3	September 12, 2012
3.2	Amended and Restated Bylaws of Qualys, Inc.		S-1/A	333-182027	3.5	September 12, 2012
4.1	Form of common stock certificate.		S-1/A	333-182027	4.1	September 12, 2012
4.2	Description of Registrant's securities		10-K	001-35662	4.2	February 21, 2020
10.1*	2000 Equity Incentive Plan, as amended, and the form of stock option agreement thereunder.		S-1	333-182027	10.1	June 8, 2012
10.2*	2012 Equity Incentive Plan and forms of agreements thereunder.		S-1/A	333-182027	10.2	September 12, 2012
10.3*	Offer Letter, between Qualys, Inc. and Philippe F. Courtot, dated December 7, 2000.		S-1	333-182027	10.3	June 8, 2012
10.4*	Offer Letter, between Qualys, Inc. and Sumedh S. Thakar, dated January 20, 2003.		S-1	333-182027	10.5	June 8, 2012
10.5*	Offer Letter, between Qualys, Inc. and Joo Mi Kim, dated May 21, 2020.		8-K	001-35662	10.1	May 26, 2020
10.6*	Offer Letter, between Qualys, Inc. and Bruce K. Posey, dated May 8, 2012.		S-1	333-182027	10.9	June 8, 2012
10.7*	Form of director and executive officer indemnification agreement.		S-1/A	333-182027	10.10	August 10, 2012
10.8	Lease Agreement, between Qualys, Inc. and Hudson Metro Center, LLC, dated October 14, 2016.		8-K	001-35662	10.1	October 19, 2016

Exhibit Number	Description	Filed Herewith	Incorporated by Reference Form	File No.	Exhibit No.	Filing Date
10.9*	Qualys, Inc. Executive Performance Bonus Plan.		Schedule 14A, Appendix A	001-35662	N/A	April 25, 2016
10.10*†	Qualys, Inc. 2016 Corporate Bonus Plan, as amended.		10-Q	001-35662	10.3	August 4, 2016
10.11	Master Services Agreement, between Qualys, Inc. and Savvis Communications Corporation, dated June 22, 2010.		S-1/A	333-182027	10.14	September 12, 2012
10.12†	Master Agreement, between Qualys, Inc. and Interoute Communications Limited, dated March 31, 2008.		S-1/A	333-182027	10.15	September 12, 2012
10.13†	Manufacturing Services Agreement, between Qualys, Inc. and Synnex Corporation, dated March 1, 2011.		S-1/A	333-182027	10.16	September 12, 2012
21.1	List of subsidiaries of Qualys, Inc.	X				
23.1	Consent of Grant Thornton LLP, independent registered public accounting firm.	X				
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	X				
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	X				

Exhibit Number	Description	Filed Herewith	Incorporated by Reference Form	File No.	Exhibit No.	Filing Date
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	X				
101.INS	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase	X				
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File—formatted in Inline XBRL and included as Exhibit 101	X				

* Indicates a management contract or compensatory plan or arrangement.

† Portions of this exhibit have been omitted due to a determination by the Securities and Exchange Commission that these portions should be granted confidential treatment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Foster City, State of California on February 22, 2021.

QUALYS, INC.

By: /s/ SUMEDH THAKAR
Sumedh Thakar
Interim Chief Executive Officer
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated:

Signature	Title	Date
/s/ SUMEDH THAKAR Sumedh Thakar	Director and Interim Chief Executive Officer (principal executive officer) February 22, 2021	
/s/ JOO MI KIM Joo Mi Kim	Chief Financial Officer (principal financial and accounting officer)	February 22, 2021
/s/ PHILIPPE F. COURTOT Philippe F. Courtot	Chairman	February 22, 2021
/s/ SANDRA E. BERGERON Sandra Bergeron	Director	February 22, 2021
/s/ JEFFREY P. HANK Jeffrey P. Hank	Director	February 22, 2021
/s/ GENERAL PETER PACE General Peter Pace	Director	February 22, 2021
/s/ KRISTI M. ROGERS Kristi M. Rogers	Director	February 22, 2021
/s/ WENDY M. PFEIFFER Wendy M. Pfeiffer	Director	February 22, 2021
/s/ JOHN A. ZANGARDI John A. Zangardi	Director	February 22, 2021

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BOARD OF DIRECTORS

Philippe F. Courtot
Chairman of the Board

Sandra E. Bergeron
Board member of F5 Networks and
Sumo Logic, Inc.

Jeffrey P. Hank
Former Vice President of Finance and
Chief Accounting Officer of Intuit, Inc.

General Peter Pace
Principal at Pace Ventures LLC

Wendy M. Pfeiffer
Chief Information Officer of Nutanix, Inc.

Kristi M. Rogers
Managing Partner of Principal to Principal

Sumedh S. Thakar
Interim Chief Executive Officer, President and
Chief Product Officer

John Zangardi
President of Redhorse Corporation

CORPORATE EXECUTIVES

Sumedh S. Thakar
Interim Chief Executive Officer, President and
Chief Product Officer

Joo Mi Kim
Chief Financial Officer

Bruce K. Posey
Vice President, General Counsel and
Corporate Secretary

CORPORATE HEADQUARTERS

Qualys, Inc.
919 E. Hillsdale Blvd.
Foster City, California 94404
T: (650) 801-6100
F: (650) 801-6101
www.qualys.com

COMMON STOCK LISTING

NASDAQ Stock Market
Ticker Symbol: QLYS

ANNUAL MEETING OF STOCKHOLDERS

Wednesday, June 9, 2021, 11:00 a.m. Pacific Time
Via live webcast at:
www.virtualshareholdermeeting.com/QLYS2021

REGISTRAR AND TRANSFER AGENT

For questions regarding your account, changes of address or the consolidation of accounts, please contact the Company’s transfer agent:

Computershare Trust Company, N.A.
250 Royall Street
Canton, Massachusetts 02021
T: (800) 962-4284
Foreign Stockholders: (781) 575-3120
www.computershare.com/investor

LEGAL COUNSEL

Wilson Sonsini Goodrich & Rosati, P.C.
Palo Alto, California

INDEPENDENT AUDITORS

Grant Thornton LLP
San Jose, California

INVESTOR RELATIONS

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Investor Relations
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Qualys®